Mustek

L I M I T E D

INTEGRATED ANNUAL REPORT 2020

LEVEL UP!

Top of mind from our chief executive officer

Creating value through our six capitals

FEATURING

- About Mustek
- Priority reads
- Strategic overview
- Operational reviews
- How we sustain value creation
- Leadership and governance
- Notice of annual general meeting
- Annual financial statements

ANTICIPATING AND PROVIDING

FOR TRENDS THAT TECH-SAVVY CUSTOMERS WILL PURSUE

www.mustek.co.za

ABOUT THIS REPORT

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IBC COMPANY INFORMATION

WELCOME TO MUSTEK'S 10TH INTEGRATED ANNUAL REPORT, IN WHICH WE SHARE THE COLLECTIVE THINKING BEHIND OUR STRATEGY FOR CREATING LONG-TERM VALUE.

10

This report presents the holistic performance of Mustek Limited (the Group or company) and its subsidiaries for the year ended 30 June 2020, and presents information on our performance, governance and prospects. Throughout the report we address the Group's challenges, our opportunities and the external factors that impact our operational performance and forward looking strategy.

Mustek's 2020 integrated annual report is published during a time of heightened uncertainty due to the COVID-19 pandemic and national lockdown in South Africa. Nonetheless, we aim to provide a transparent, balanced description of our progress towards our strategic objectives.

What are our reporting principles and frameworks?

This integrated annual report has been prepared in accordance with the International Integrated Reporting Council's (IIRC) <IR> Framework, the Global Reporting Initiative's (GRI) G4 sustainability reporting guidelines and the Sustainability Data Transparency Index (SDTI). The Board of directors (the Board) and management have considered the fundamental concepts, guiding principles and content elements recommended in the framework and have endeavoured to apply these recommendations in the report. The Group's previous integrated annual report (2019) included sustainable development disclosures which are comparable and consistent with specific indicator disclosures included here.

This report also accords with the parameters of the Companies Act, 71 of 2008, as amended (the Companies Act), the JSE Listings Requirements and, where possible, the recommendations of the King IV Report on Corporate Governance™ for South Africa 2016* (King IV). The Board and company secretary implemented the principles and relevant practices of the King IV Code during the 2020 financial year. The Group's annual financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the South African Institute for Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and in the manner required by the Companies Act.

What are our integrated reporting objectives?

The purpose of this report is to provide a wide range of stakeholders with concise communication regarding the Group's strategy, governance, performance and prospects, in the context of the external environment, and its creation of value over the short, medium and long term.

In terms of the <IR> framework, integrated reports are prepared primarily for the providers of financial capital to help inform their decision-making regarding financial capital allocations. Matters not related to finance or governance also impact the ability of Mustek to create value over the short, medium and long term. These matters, be they social or environmental, are of interest to other stakeholders and are also addressed in this report.

What is our reporting boundary and scope?

This 2020 integrated annual report presents a holistic review of Mustek Limited, its subsidiaries and associates, financial and non-financial performance for its financial year 1 July 2019 to 30 June 2020. Details of investments in subsidiary and associate companies appear in notes 9 and 10 of the annual financial statements. The intention of this report is to provide information that will enable shareholders, potential investors and all stakeholders to make an accurate assessment of the value creation offered by Mustek.

What about materiality?

This report seeks to describe and contextualise the most material risks and opportunities faced by our business. We consider a matter to be material if it substantially affects our ability to create and sustain value for all our stakeholders in the short, medium and long term. We have explained how we determine what matters are material to the Group in further detail on page 24 of this report.

Restatements or changes from the prior period

In the previous financial year, inventories and inventories in transit were presented in separate line items on the face of the statement of financial position. During the current financial year, inventories in transit are included as part of inventories.

How do we achieve assurance?

Mustek continues to develop and apply a combined assurance model, providing management and the Board with confidence regarding the information disclosed in this report. The Group's annual financial statements were independently audited by BDO South Africa Incorporated. The Group's broad-based black economic empowerment (B-BBEE) contributor levels were verified by EmpowerLogic Proprietary Limited.

Who approves this report?

The executive directors and senior management have been instrumental in the preparation of this report. The Board has applied its mind accordingly and is of the opinion that this integrated annual report addresses all material matters and offers a balanced view of the integrated performance of the organisation and its impacts. As such, the Board has fulfilled its responsibilities in terms of the recommendations of King IV. This report was approved by the Board on 19 October 2020.

Forward looking statements

Many of the statements in this integrated annual report constitute forward looking statements. These are not guaranteeing or predicting future performance.

Released during the unprecedented time of COVID-19, this report contains assumptions that are now subject to heightened uncertainty. As discussed in the report, Mustek faces risks and other factors outside its control. This may lead to outcomes unforeseen by the Group. These are not reflected in the report. Readers are warned not to place undue reliance on forward looking statements. Forward looking statements have not been reviewed nor reported on by the company's auditors.

Mustek
L I M I T E D

www.mustek.co.za

Getting your Mustek report
Download these in PDF format from www.mustek.co.za, or request your printed copies from: Mustek Limited,
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Feedback on report
We welcome your feedback on this report.
Please email your comments to ltd@mustek.co.za.

Connecting for a better future

<Our vision>

Mustek aims to be South Africa's ICT supplier of choice.

An objective we constantly strive for through an approachable and flexible "can do" attitude when assisting our customers with product sourcing, specification, and solution formulation, as well as superior technical expertise, evidenced by the high level of technical support and assistance afforded to our customers.

As a technology company, we use our technology and communications services to connect people and enable businesses in an increasingly digital world.

In delivering on this vision, Mustek has committed itself to four core values.

<Our core values>

Mustek's Group values are underpinned by its service excellence principles.

> Knowledge and attitude

Mustek takes pride in its people, its company, its products and services, and its customers. Mustek acts professionally at all times and is proactive and passionate about what it does and how it builds the Group. Mustek invests in the development of its staff to increase its knowledge base and ensure that it supplies its customers with the best technical service. Mustek ensures that all its technical staff members are accredited in their fields.

> Flexibility

In a constantly changing information technology (IT) landscape, Mustek believes that business flexibility is vital to success. At Mustek, we have a "can do" attitude that gives us the ability to make whatever operational or product changes are necessary to respond effectively to trends or opportunities. This culture of flexibility allows Mustek to quickly onboard products, or rejig the assembly line to offer new lines or quickly meet customers' changing requirements. Mustek's staff are both able and eager to seek innovative solutions to new challenges.

> Efficiency

Mustek strives for efficiency, since this enables the Group to do more with less, and in so doing ensure quick response times for its customers, whether these are stock turnaround times, or the time taken to repair or replace a piece of hardware.

> Responsibility and accountability

Mustek believes in integrity, employment equity, care for the environment, respect, and human dignity for all. We reward performance and share responsibility at all levels.

OUR RESPONSE TO COVID-19

The global pandemic is challenging business models globally, upending traditional ways of working, shutting down certain sectors of the economy, disrupting supply chains, and severely constraining consumer spend. With people increasingly physically isolated, and with many workers operating remotely, our products and solutions have never been more critical in helping to keep societies functioning.

> FLATTENING THE COVID-19 CURVE THROUGH DIGITAL CONNECTIVITY

As the world responds to the outbreak of COVID-19, we are working to do our part by ensuring the safety of our employees, striving to protect the health and wellbeing of the communities in which we operate, and providing the technology and resources that allow our customers to do their best work while remote.

We have implemented numerous measures to ensure the safety of our employees and customers, while keeping individuals, communities and businesses connected. All of these initiatives ensure that together we harness the power of digital technology to flatten the curve, and connect for a better future.

> OFFICE CLOSURE DURING LEVEL 5 LOCKDOWN

- On 23 March 2020, President Ramaphosa announced a 21-day lockdown in South Africa to contain the spread of the coronavirus.
- We immediately prepared to close our offices and provide the necessary equipment for employees who could work from home to do so.
- Mustek remained closed between Thursday, 26 March and Friday, 17 April 2020, supplying essential services only.

During the level 5 lockdown in April, employees received their full regular income through a combination of salaries, paid leave and the COVID-19 Temporary Employer Relief Scheme (TERS) benefit.

> KEEPING THE WORKPLACE SAFE AS THE LOCKDOWN EASES

COVID-19 task team

Mustek's COVID-19 task team was established on 10 March 2020. It comprises senior management in various areas, as well as safety representatives.

Some of their functions include:

- COVID-19 awareness and training
- Communication and implementation of risk assessment and procedures
- Information distribution from the National Department of Health or National Department of Employment and Labour.

New policies and procedures

The following documents were drafted and implemented, in line with government regulations:

- COVID-19 policy
- Risk assessment and standard operating procedures (SOP)
- Medical surveillance procedure
- Reporting of possible infection procedure
- New induction presentation.

Medical screening

Anyone entering our premises is screened, provided with a mask, and their hands sanitised with an alcohol-based product.

On a daily basis, each employee:

- completes an access register with screening questions
- has their temperature checked using a non-contact thermometer.

Qualified nurses, wearing full body suits, are equipped to assess symptoms and, if necessary, guide employees to an isolation room for further testing.

Routine daily activities

- All employees have been trained regarding COVID-19 safety procedures, including:
  - Regular and thorough cleaning of hands
  - Wearing of face masks at all times
  - Social distancing
  - Respiratory hygiene
  - Protective shields and public facing counters
  - Daily cleaning schedules
- Our COVID-19 response team, supervisors, and management monitor compliance and swiftly take action where appropriate
- Line managers conduct visual inspections to identify potentially ill employees
- Health and safety representatives ensure hand sanitisers are readily available at all times
- Our COVID-19 response team constantly communicates changes within the workplace to all relevant staff.

Being infected with COVID-19

Despite social distancing measures, training and education, we know that some of our staff will be infected. Positive cases have occurred among our staff members. These cases cannot be prevented, but we intend to avoid a mass outbreak at the Mustek premises by adhering to all protective measures:

- An employee showing symptoms of infection is encouraged to stay at home and get tested.
- Mustek will send a nurse to the employee's home to do the testing, rather than request that the person visits a doctor at their own cost.
- If the test is positive, we identify those who were in direct contact with the employee at work so that they can be quarantined and tested.

> SUPPORTING OUR COMMUNITIES

As the world responds to the outbreak of COVID-19, our thoughts are with the people affected. It is important for us to continue helping our communities in this time.

Accordingly:

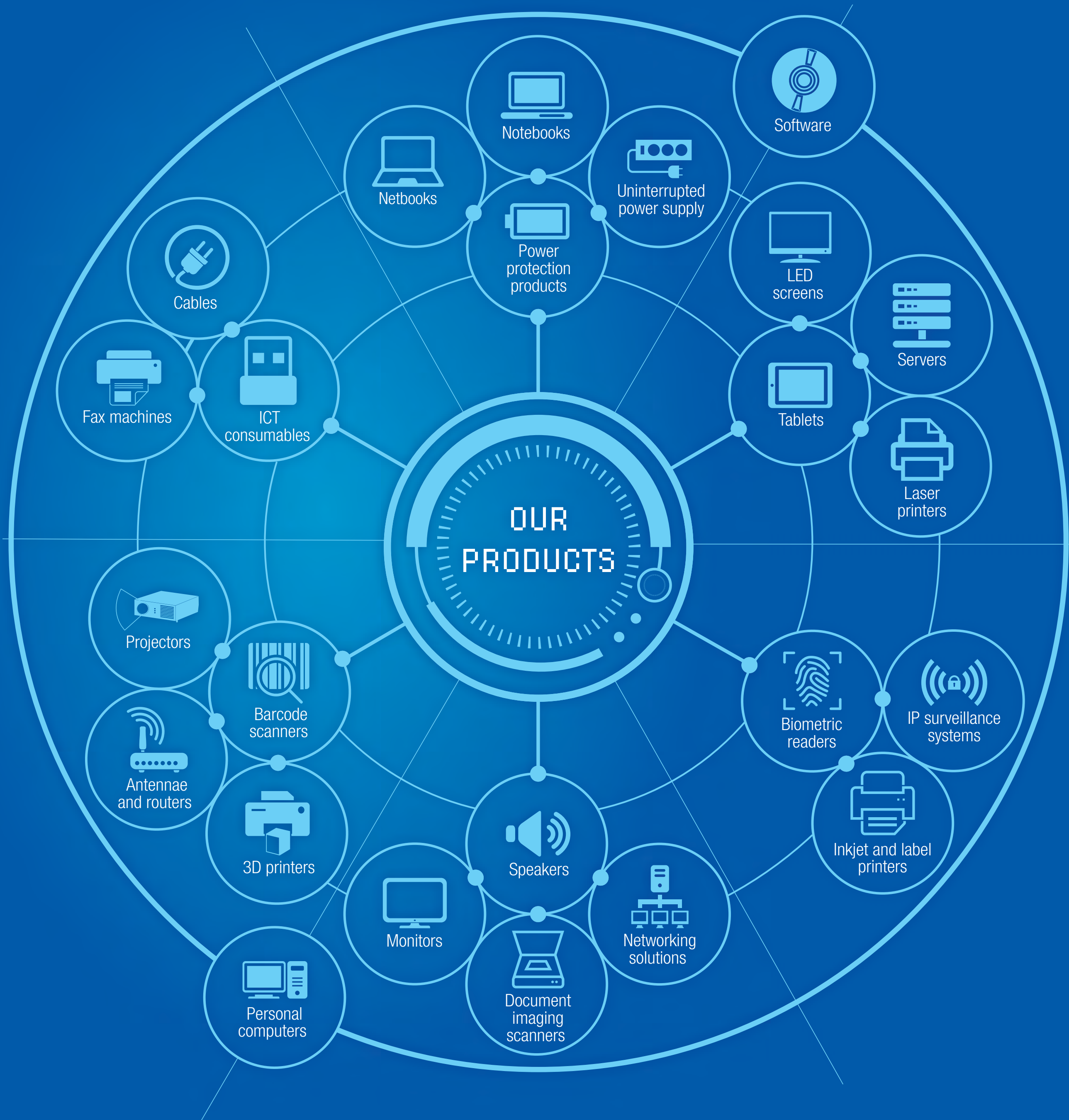
- we made donations to the Solidarity Fund as well as Baragwanath Hospital
- our Port Elizabeth branch technicians were involved in the Rev Dr Elizabeth Mamisa Chabula-Nxiweni Field Hospital, which opened in June 2020.

> KEEPING OUR PEOPLE SAFE

Between March and June 2020, Mustek and Rectron have spent:

MUSTEK	RECTRON
R1 902 943	R1 888 317

Group profile



Founded in 1987 by our current CEO, David Kan, the Mustek Limited Group was listed on the JSE in 1997. The Group comprises the wholly owned operations of Mustek and Rectron, a controlling shareholding in Palladium, noteworthy shareholdings in Sizwe Africa IT Group and Khauleza IT Solutions, and a substantial shareholding in Yangtze Optics Africa Cable (YOAC).

MUSTEK LIMITED	
Subsidiaries	**Associates**
• Mustek • Rectron – Palladium • Mecer Inter-ED	• Sizwe IT Group (40% shareholding) • Khauleza IT Solutions (36% shareholding) • Yangtze Optics Africa Cable (25.1% shareholding)

From its solid foundation as one of the largest assemblers/distributors of personal computers (PCs) and complementary information and communications technology (ICT) products in South Africa, Mustek has evolved into a seamless end-to-end provider of ICT solutions – from system design to supplying the hardware, implementing the solution and operating it if required. Headquartered in Midrand, South Africa, Mustek anticipates ICT trends and adds value to imported components and finished products through planning, bulk purchasing, consolidating shipments, assembly, warehousing and after sales service and support. The Group utilises a proven distributed sales network to distribute and maintain a wide range of ICT products across South Africa and several other African countries. These are procured through agreements with many of the world's leading brands and from Mustek's in-house Mecer brand. Mustek continues to differentiate itself as a value-added solutions provider in addition to distribution.

<The Group's brand portfolio includes>

VALUE CREATION HIGHLIGHTS

Six capital highlights

Financial capital 1

Net asset value per share

1 598.08 cents

(2019: 1 494.21 cents)

Revenue

R6.40 billion

(2019: R5.85 billion)

Net cash from operations

R499.98 million

(2019: R16.29 million used)

Manufactured capital 2

63 727 units assembled

(2019: 72 707)

6.32 million items sold

(2019: 5.53 million)

Human capital 3

During the

level 5 lockdown

in April, employees received their full regular income

Social and relationship capital 4

R1.56 million

was spent on corporate social investment (CSI) contributions (2019: R1.78 million)

Mustek maintained a

level 1

B-BBEE rating, using the amended ICT sector codes

Natural capital 5

Mustek successfully maintained its

ISO 14001

certification

Energy consumption reduced by

4%

during the reporting period (2019: 2% increase)

Intellectual capital 6

2020

Mustek added green energy solutions to the ICT stack as a natural extension of our uninterrupted power supply (UPS) business

OUR OPERATING CONTEXT

We operate in a fast-paced and rapidly evolving industry. This requires anticipating and adapting to shifting circumstances in a way that allows us to pursue our strategic objectives and provide the best products and services to our customers.

> South African economy

- Macroeconomic difficulties include low growth, loadshedding, policy uncertainty, falling business confidence, rising unemployment, and currency weakness. These were exacerbated by COVID-19.
- Ratings agencies downgraded South Africa's sovereign credit rating to sub-investment grade.

> COVID-19

- COVID-19 poses a global threat. The outbreak and associated national lockdown places pressure on an already challenging situation.
- The lockdown and work-from-home movement highlighted the need for rapid development in technology to support the increasing demand in bandwidth and videoconferencing, to ensure stable professional and personal communications, as well as entertainment. Demand for cloud computing services has soared during the pandemic.
- As a result, technology suppliers might find themselves in a leading position when it comes to the recovery of the global economy.

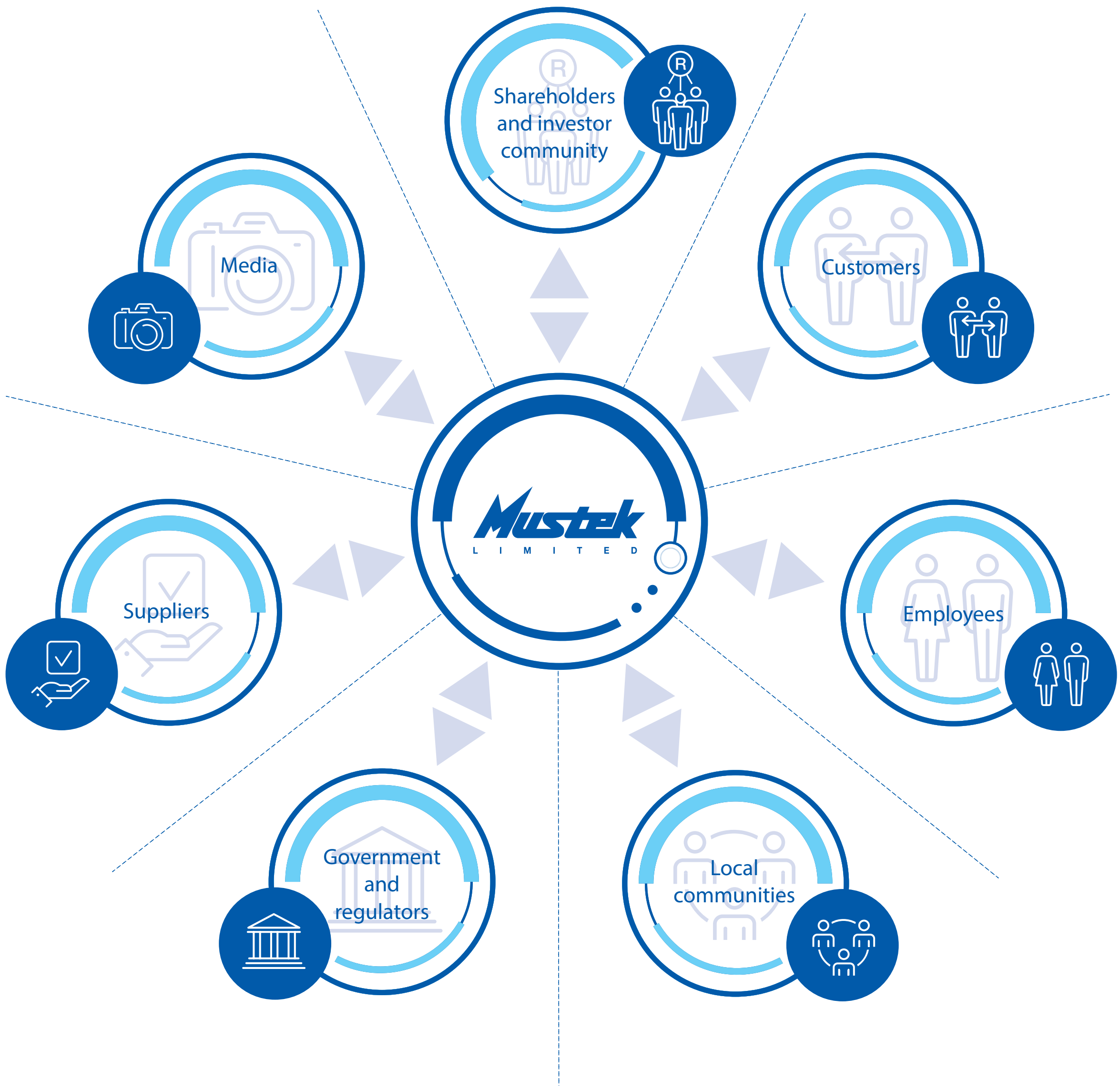
> Global supply chains

- The pandemic introduced slowdowns, complexity, and heightened risk into global commerce.
- External events, such as the current pandemic, can hamper production, exacerbate existing supply chain challenges and introduce new ones.
- For global manufacturers, highly customised, low-automation components may remain out of stock if Chinese suppliers cannot recover quickly enough.
- Logistics challenges mean that delivering even readily available components to production lines overseas is likely to take longer and cost more than it did in the past.

> Accelerating digital transformation

- Our post-COVID-19 world is likely to be one characterised by social distancing. This will only encourage the proliferations of the "smart" devices synonymous with the Internet of Things (IoT).
- Digital transformation is accelerating, powered by emerging technologies like 5G, artificial intelligence (AI), and cloud computing. This trend will soon propel the digital economy into a new phase of development, where AI-powered industry plays a leading role. 5G is converging with technologies like AI and cloud storage.
- These technologies are being tightly integrated into enterprise production systems, changing the way we work. Together, they help traditional industries go digital, making things like smart ports, telemedicine, remote office work, and robotic inspections a practical reality.
- Evolving technology is also reshaping the consumer domain. With support for applications like high-definition live streaming, smart classrooms and distance education, smart travel, and other forms of immersive experience, they are taking people beyond the boundaries of time and space. We are beginning to see the effects of technology spill-over.
- ICT has become a driving force behind economic growth, pushing the digital economy into a new era. Huawei, a leading global provider of ICT infrastructure and smart devices, estimates that the digital economy will grow to account for 25% of global gross domestic product (GDP) by 2025, up from the current 15%.
- ICT players are building strong partnerships, to adapt capabilities to meet the specific needs of different industries, enabling digitisation and driving the digital economy forward.

KEY RELATIONSHIPS



Mustek's growth, value creation and long-term sustainability depends on the quality of our relationships with our various stakeholders. Building and maintaining relationships based on trust, mutual respect and credibility is integral to operations.

> STAKEHOLDER ENGAGEMENT APPROACH

Stakeholder engagement is important to the Group. We foster transparent communication channels to share information and proactively resolve concerns. Stakeholder perceptions are carefully considered when reviewing and refining our strategy, managing risks, identifying opportunities and safeguarding our reputation.

An overview of our key stakeholder groups, their interests and concerns, and how we engage with them is provided in the report from the Social and Ethics Committee, on page 92.

OUR BUSINESS MODEL

Mustek's business model is based on agile and flexible management with the in-depth industry knowledge to recognise ICT trends early and react quickly in response. This enables us to make timely acquisitions or enter strategic partnerships.

Our business activities enable us to ensure revenue growth and high levels of cash generation, used to reinvest in the resources and relationships that we rely on to do business and to deliver on our strategy.

Mustek's business model is based on the following key elements:

- trend spotting and innovation. We fulfil ever-changing ICT needs by anticipating, identifying, procuring and delivering the right solutions, at the right time and at the right price
- smart acquisitions, shareholdings and partnerships. Mustek extends its reach into aligned business opportunities by identifying and entering into business relationships with well-positioned companies in those spaces
- a mix of direct and indirect business channels, to sustain a wide combination of resellers and solution providers who supply to all parts of the consumer, business and public sector market
- developing and incentivising a skilled workforce to provide outstanding service, technical expertise and support
- a stockholding policy that fulfils customer orders promptly, supported by the rapid processing of warranties, returns and replacements
- industry-leading door-to-door delivery and logistics
- strong relationships with leading international ICT brands through licensing, agency and distribution agreements
- strong financial controls to manage working capital and realise cash
- adherence to international best practice standards such as ISO 9001 and ISO 14001, as well as the corporate reporting frameworks of King IV, GRI, SDTI and <IR>.

Mustek's ability to manoeuvre and expand into adjacent distribution segments is based on:

- an outstanding reputation with international vendors
- a close watch on developing trends in digital technology, given that the IoT will connect a far broader range of devices than previously associated with IT
- a harmonious workforce that is constantly being upskilled and promoted through definitive career paths
- a strongly loyal reseller and solutions provider base numbering in the thousands, from large to small, that competitors cannot match. Our solutions providers and resellers extend across most ICT market segments, from SMEs up to the large corporate and public sector organisations
- a long established and efficient distribution network that extends Mustek's reach deeply into our target markets
- South Africa's most reputable ICT assembly line, well versed in customising orders on the fly
- a service department reputed as the best in South Africa's ICT sector.

INTELLECTUAL CAPITAL

INPUTS
- Shareholder funds
- Banking funds
- Supplier funding.

OUTCOMES
- Minimised obsolescence and waste
- Acceleration of new technologies
- Better responses to changing consumer needs
- Solutions for improving South Africa's ICT landscape.

OUTPUTS
- Comprehensive, high-value solutions
- Partnerships with the best providers of forward-thinking technology solutions and services
- Improved operational efficiencies and cost management
- Risk identification and mitigation
- Mustek Gauteng's certifications:
  – ISO 9001:2015 (Quality)
  – ISO 14001:2015 (Environment).

BUSINESS ACTIVITIES

INNOVATION
- Updating our product knowledge and solutions expertise; ICT trends
- Anticipating, identifying, procuring and delivering the right products, at the right time and at the right price
- Designing and implementing solutions from software and hardware to meet specific needs.

INPUTS
- IT trend spotting
- Distribution systems
- Retained institutional knowledge.

NATURAL CAPITAL

OUTCOMES
- Installations that will pay for themselves in a relatively short time and significantly reduce our overall electricity demand and usage
- Responsibly recycled electronic waste
- Negative impacts on the environment reduced.

BUSINESS ACTIVITIES

PRODUCT ACQUISITION
- Assembly, production and planning
- Building and maintaining strong relationships with vendors of leading international ICT brands through agency and distributorship agreements.

OUTPUTS
- Energy management system (EnMS) based on the ISO 50001 international standard implemented at the Midrand facility
- ISO 14001 certification (maintained since 2004)
- Sanctions or fines for non-compliance with environmental laws and regulations: none
- Waste recycled: 142 tonnes
- Energy consumed by Mustek: 13 416 GJ
- Energy consumed by Rectron: 4 916 GJ
- Replacement of ICT equipment with energy-efficient units, installing rooftop solar panels and LED lights.

INPUTS
- Power
- Land
- Raw materials processed into components.

DISTRIBUTION
- Co-ordinating a national network of branches/resellers
- Providing door-to-door delivery and logistics services.

OUTCOMES
- Enhanced reputation
- Brand awareness in new segments
- B-BBEE transformation
- A formal CSI programme improving the quality of, and access to, education for previously disadvantaged communities and handicapped individuals.

FINANCIAL CAPITAL

OUTPUTS
- Net cash generated from operations: R499.98 million
- Profit for the year: R88.05 million
- Revenue: R6.40 billion
- Net asset value per share: 1 598.08 cents
- Headline earnings per ordinary share: 127.13 cents
- Income tax expense: R27.44 million.

OUTCOMES
- Mustek has adequate working capital to thrive and expand
- Assets exceed liabilities
- Focus on optimal working capital management
- Net finance charges decreased from R104.25 million to R100.87 million.

BUSINESS ACTIVITIES
WAREHOUSING
- Managing logistics
- Managing stock
- Maintaining one of the largest inventories in the country and reasonable stock levels across branches
- Fulfilling orders in the shortest possible time.

MANUFACTURED CAPITAL

INPUTS
- Inventory
- Premises – Head office and branches
- Warehousing
- Assembly line
- Fleet.

OUTPUTS
- Property, plant and equipment: R187.94 million
- Ability to customise products to meet customer demands
- Assembled units: 63 727
- Items sold: 6.32 million
- Our Mecer semi-automated assembly plant with a daily capacity of 1 000 units is the largest in South Africa.

BUSINESS ACTIVITIES
TECHNICAL EXPERTISE
- Developing and retaining high performance staff
- Managing warranties and repairs in-house
- Appointing dedicated subject matter experts for each product and technology, supported by a research and development (R&D) division
- Providing service and technical support at all levels.

OUTCOMES
- Improved inventory ageing
- Gross profit percentage increased from 13.99% to 14.23%.

ICT MARKET ENVIRONMENT

HUMAN CAPITAL

INPUTS
- Mustek's Board and executive management
- 642 Mustek direct employees
- 342 Rectron direct employees
- Management and employees of the associated companies.

BUSINESS ACTIVITIES
RESELLER AND SOLUTIONS PROVIDER
- Maintaining a national network of direct and indirect partners
- Supporting resellers and solutions providers that supply solutions services and products to all parts of the consumer, business and public sector market.

OUTPUTS
- Investment in staff development in Mustek company: R22 million
- Employee turnover for Mustek: 6.48%
- Return to work and retention rates after parental leave: 100%
- Mustek's absenteeism rate: 1.35%
- Rectron's absenteeism rate: 1.32%.

OUTCOMES
- Aligned with Group objectives
- Transparent career paths
- ICT experience
- Enhanced experience and skills
- Raised service levels
- Portable skills for the ICT industry
- Employees are able to provide for families and communities.

SOCIAL AND RELATIONSHIP CAPITAL

BUSINESS ACTIVITIES
CUSTOMER SATISFACTION
- Exceeding our customers' expectations
- Devising accurate solutions; delivering products quickly; offering excellent technical support; and efficiently fulfilling warranties and service level agreements.

INPUTS
- Stakeholder relationships with shareholders, employees, customers, resellers, suppliers, vendors and local communities, among others
- Mecer and multinational brands.

OUTPUTS
- Mustek B-BEE rating: level 1
- Rectron B-BEE rating: level 2
- CSI spend: R1.56 million
- Awards: Mustek's Mecer brand won Microsoft OEM Partner of the Year award
- Strong reseller base between Mustek and Rectron: > 10 000 resellers
- Outstanding service delivery, underpinned by open channels of communication.

CHAIRMAN'S INTRODUCTION

Rev Dr Vukile Mehana

Last year I expressed the hope that a business-friendly approach could revitalise South Africa's economy, but my optimism was somewhat dampened by low economic growth, increasing unemployment figures, and escalating fuel and utility costs.

While these factors were a mounting concern, they were rapidly eclipsed by the spread of COVID-19, which resulted in extraordinary disruption at a global, national and personal level. In these particularly uncertain times, the need for focused leadership is greater than ever before. Businesses that will survive and prosper in this uncertainty are those with the flexibility to adapt swiftly to evolving conditions, while remaining committed to delivering tangible societal value.

Mustek's steady growth over nearly four decades is founded on its capacity for innovation and underpinned by the substantial societal value it provides by advancing technologies and digital connectivity. These qualities will assure Mustek's continued resilience and growth.

Our broader economic, political and social context

From a global point of view, the United States administration's preference for bilateral trade relationships has led to an uncertain global trading environment and destabilised the well-established, multilateral rules-based system that governed trade for decades. In particular, the volatile US/China trade relationship has heightened the risks in international trade.

I remain concerned about South Africa's declining economic performance, weakening general global competitiveness and the operational ability of Eskom to deliver a reliable supply of electricity. Continuing delays in economic restructuring and reform policy uncertainty, set against a deteriorating fiscal position, are headwinds against our nation's hopes of economic revitalisation.

All of this has paled in comparison with COVID-19 and the subsequent global crisis.

The global COVID-19 outbreak in 2020 presents profound risks for the country, the communities in which we work, and our activities as a company. All scenario planning indicates a considerable slump in global economic activity for the medium term at least. Enforced quarantines, physical distancing measures and travel restrictions are straining business viability and banking systems. These may prompt increased levels of social unrest. The full social and economic impacts of the pandemic are yet to be determined.

However, with more people now working and entertaining themselves from home, the rolling lockdowns are accelerating demand for digital services and devices, highlighting the role ICT companies have in sustaining essential connectivity during the pandemic. In this context, I am proud of the rigorous measures that Mustek has taken in response to COVID-19, ensuring that operations continue while we proactively minimise the risk of infection for our employees and customers.

I am confident that Mustek will continue leading through innovation, both in ensuring the Group's resilience, and in helping individuals, companies and communities adapt to an unfolding future.

CHAIRMAN'S INTRODUCTION CONTINUED

Keeping our people safe during a once-in-a-century pandemic

Mustek spared no expense in terms of employee and customer safety. As at 30 June 2020, the Group had spent over R3.8 million on personal protective equipment (PPE), workplace sanitisation and employee training.

We quickly established a COVID-19 task team drawn from across the Group to oversee the implementation of policies and procedures that go beyond government requirements. Anyone entering our premises is screened and their hands sanitised with an alcohol-based product. We provide masks freely to visitors. Before wearing masks became compulsory, we imported 90 000 medical quality masks and each employee was given two masks per day.

Specific policies were introduced that included:

- virtual meetings instead of face-to-face
- rotation of staff, and working from home
- travel kept to a bare minimum, if at all
- introduction of special leave by the company to accommodate quarantine requirements
- additional cleaning routines to specifically address COVID-19 risks.

Those who can work from home are encouraged to do so, and open-plan workspaces are now divided by screens. Workforces have been split into two separate teams that may not physically come into contact with each other.

Testing, tracing and tracking mechanisms are in place. Should an employee show symptoms of infection, they are encouraged to stay at home and get tested. The Group will send a nurse to the employee's home to do the testing, rather than request that the person visits a doctor at their own cost. Once results come back negative, the employee returns to work. If the test is positive, we identify their work contacts so that they can be quarantined and tested.

Despite social distancing measures and all precautions, Mustek employees will inevitably get infected.

Governance

Our duty as Board members is to provide effective stewardship and oversight functions, lead a strong culture of ethics, and ensure that good governance is embedded across the Group's business operations. We have a clear commitment to corporate citizenship and to fulfilling our social contract with all Mustek stakeholders.

I remain concerned about the wearing down of ethics and trust in our society. The private and public sector corruption across South Africa constantly remind us of our responsibility to uphold the trust placed on us as Board members. We commit to actively combatting corrupt practices wherever we encounter these and maintain zero tolerance for corruption within Mustek.

As Mustek's chairman, I have been fortunate to have Board members that bring the strong diversity of skills, experience and outlook needed to drive full accountability, and to ensure that we fulfil our ethical and fiduciary obligations. We have been well supported in our oversight function by the executive team, which bring further insights into the Group's performance and strategic performance. The Board remains satisfied with Mustek's strategic direction and in this financial year focused primarily on stock management, profitability and cash flow.

From March 2020 onwards, COVID-19 featured most prominently on the Board's agenda, with a specific focus on cash flow and cash preservation during the lockdown period. Online Board meetings were held during the period to gain assurance that Mustek's executives were on top of the situation.

The 12-person COVID-19 task team, with seven drawn from the Executive Committee (Exco), has the authority to ensure that decisions and actions are performed expediently and without red tape.

Independent consultants performed risk assessments at head office and all the branches. Their recommendations were implemented and we appointed COVID-19 champions at all branches.

The Board and executive management complement remained unchanged during the year under review, although we did rotate. In line with current best practice, we retired Deloitte as Mustek's external auditor after 23 years of commendable service. The Board decided to appoint BDO as our new external auditor, which prompted us to appoint Prozilog as our internal auditor.

Board evaluations are conducted by the appointed company secretary, who is an independent and suitably qualified professional who heads a company secretarial business.

Work of the sub-committees

The Social and Ethics Committee continues to monitor Mustek's management initiatives in employment equity, skills development and CSI. During the reporting period, the Social and Ethics Committee's terms of reference were reviewed to ensure that the social, ethics, economic, governance, employment and environmental activities of the Group are monitored effectively against internationally recognised human rights principles and other relevant best practice standards. No material ethical leadership and corporate citizenship deficiencies were noted.

In reviewing Board committee composition during the year, it was decided that, due to the size of the company, the Remuneration and Nominations Committee would remain one committee.

Likewise, it was decided that the Audit and Risk Committee would remain one committee and attend to both audit and risk responsibilities. The Audit and Risk Committee has thoroughly considered the impact of COVID-19 in terms of the financial results.

Sustainability

People, planet and profit

There is no doubt that technology will be a key driver of future progress and long-term economic growth. Mustek is well positioned to boost both private and public sector wellbeing by providing inclusive digital products and services.

With the fast-paced nature of the technology sector, it is essential to retain and attract top talent, while also investing in the skills and career pathways of our employees. We offer challenging work along with recognition, organisational support, skills development opportunities, and health and wellness programmes.

During the COVID-19 crisis, we supported our employees by paying their full salaries during the month of April, utilising a combination of Unemployment Insurance Fund (UIF) funding and paid leave where necessary. All employees returned to full pay as operations resumed, with no retrenchments due to COVID-19. Employee wellbeing is critical as we navigate COVID-19 while providing our customers with the services and solutions they require in the "new normal".

Increasingly scarce natural resources, as well as a growing social consciousness, demands action to prevent climate change. Our customers want enabling technologies to answer this call to action. Mustek continues seeking and delivering innovative solutions that are more efficient, healthier, and have low impact on the environment.

A solid stakeholder feedback loop ensures that the Board stays abreast of consumer trends and societal needs. I am convinced that the leadership team's commitment to consistent and transparent communication with key stakeholders – including staff, lenders, regulators and clients – has built deeper trust and confidence in Mustek.

Social responsibility:

- We made donations to the Solidarity Fund and the Chris Hani Baragwanath Hospital
- Our Port Elizabeth branch technicians were involved with the Rev Dr Elizabeth Mamisa Chabula-Nxiweni Field Hospital, which opened in June 2020.

Conclusion

COVID-19 is changing the nature of human society and will likely cause a global economic recession. We stand ready to govern the business through what looks to be a challenging year for all of us, our customers and the global economy. While continuing our drive to achieve group strategic objectives, we will prudently evaluate the impact of the pandemic as it unfolds and manage risk accordingly.

The Board is committed to ensuring that Mustek Limited remains a responsible corporate citizen in every jurisdiction that we operate in. Our responsibility is and always will be, to remain accountable to all our material stakeholders.

Rev Dr Vukile Mehana
Chairman

David Kan
Chief executive officer

Q&A An interview with David Kan

I have experienced many challenges during my 33 years at Mustek, but nothing on the scale of the first few weeks of responding to the COVID-19 sweeping across the globe. This extraordinary time – which is far from being played out – will shape a "new normal" for human societies. COVID-19 and its aftermath will be remembered as the once-in-a-century event that fundamentally changed how we interact, work and socialise with one another.

Talk us through how COVID-19 impacted Mustek and how you see the Group progressing as a result?

The arrival of COVID-19 in March 2020 took the gloss off an exceptional financial performance, primarily due to the strict level 5 lockdown imposed in April 2020. Under level 5 lockdown the Group ceased operations, like all our peers, and could only supply essential services.

Our first reaction was to follow the government line in taking a swift and strict approach to preventing COVID-19 infections in the workplace and among our employees and customers. We imported our own supply of face masks directly from China and implemented measures that exceeded the requirements of government and the World Health Organization (WHO).

Robust sales returned from May 2020 as we reopened the business in stages, which suggests that the pandemic has accelerated demand for IT goods and services due to permanent shifts in where and how people work.

Many families are now working and educating their younger ones from home. Most will require at least one or two additional laptops and possibly an internet connectivity upgrade. Mustek can easily supply all these and more.

There is a lot in the pipeline for us, especially in the online education sector – both from educational institutions and for home education. Public sector and educational institutions have already placed significant orders for infrastructure, while the Mecer Inter-Ed remote training platform is attracting attention.

We are an intrinsically stronger market than most sectors of the economy and – certainly in the short term – COVID-19 has forced budgets to be reallocated to IT so that people can work remotely. The trend of multiple laptops per household is unlikely to reverse in the foreseeable future.

Comment on Mustek's financial performance over the year. Was there a distinct pre and post-COVID-19 performance?

Looking back on a generally pleasing year, Mustek delivered an exceptional financial performance that was only dampened by the April 2020 lockdown and its temporary suspension of trading.

The Group delivered a highly commendable performance against a background of low economic growth, limited trading during level 5 lockdown in April 2020, a R12.5 million increase in its inventory obsolescence allowance, a R30.5 million increase in its expected credit loss allowance and R3.8 million spent on COVID-19-related expenses.

Group revenue increased by 9.4% to R6.4 billion (2019: R5.8 billion), while the gross profit percentage increased to 14.2% (2019: 14.0%).

Net finance charges decreased from R104.3 million to R100.9 million, predominantly as a result of lower interest rates towards the end of the financial year. Interest rates are currently 30% lower than 12 months ago and the full benefit of a lower interest rate environment should substantially lower the net finance charges in the 2021 financial year.

The ZAR/USD exchange rate was extremely volatile during the year and foreign currency losses of R56.8 million (2019: R19.9 million) was incurred.

Mustek's headline earnings per share was 8.7% lower at 127.13 cents (2019: 139.32 cents) and basic earnings per share is 16.1% lower at 124.05 cents (2019: 147.90 cents). In the comparative period, basic earnings included a non-headline profit of R6.3 million on the sale of vacant land in Midrand.

Despite healthy sales, the financial year leading up to the COVID-19 outbreak was by no means plain sailing, as technology prices were impacted by the ongoing weakness of the Rand (ZAR). Most IT inventory items are imported, resulting in local prices being directly impacted by the value of the Rand against foreign currencies. The generally weaker Rand raised the cost of sales in our markets.

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

Q

Tell us more about how COVID-19 has impacted the digitalisation of how we work, play and connect.

The impact of COVID-19 on the global economy is already profound, but the IT industry is among those sectors that will clearly benefit from the "new normal" economy likely to emerge.

We estimate that two to five years' worth of digitisation has happened in the space of two months. For example, the Microsoft Teams and Zoom apps had been around for years, but have gained massive traction since the pandemic commenced. Millions of people who were hastily sent to work from home will not return to company premises permanently.

The outcome for Mustek is growing demand for laptops and the supporting products and services for networking, storage, security and connectivity that will support this massive redistribution of work across the globe. Our customers in South Africa and across the continent are also acquiring portable battery backup systems from Mustek to maintain workflow during power outages.

Fast and reliable connectivity has become a market imperative, which is speeding up the roll-out of fibre networks across South Africa. The YOA fibre manufacturing plant in KwaZulu-Natal, of which Mustek is a major shareholder, is currently in full production to meet demand.

We foresee that company premises and travel budgets will be cut heavily to fund working from home and online training of employees. In fact, online education will grow exponentially to meet accelerated demand.

Q

The world was clearly unprepared for a major pandemic, which showed up weaknesses in how governments and companies evaluate their risks. Which risks are top-of-mind when planning ahead now?

Besides managing our cash flow and working capital, our most immediate risk is the implication of working from home for most of our employees. What is the impact on productivity, how do we re-align working procedures, and what do we do with company premises and assets that may now be underutilised? We also need to be sensitive to the impact on labour regulations and the work-life realities of our employees.

At the same time, we must provide for those employees who need to be physically present at company premises, as well as for visiting customers and suppliers. That entails enforcing strict health and safety protocols in line with upgraded COVID-19 standards.

With many businesses under severe financial strain, we need to monitor our client receivables closely to forestall bad debt. Insurers are highly reluctant to take on new risk in this environment, which increases our vulnerability to potential bad debt. Fortunately, we have not yet experienced any serious defaulters.

Mustek's top risk remains South Africa's economy. We cannot predict how this will affect the IT spend in public sector budgets, despite the fact that government and its education department in particular will inevitably require new IT infrastructure.

Another ongoing and top risk is the Rand (ZAR) exchange rate against major currencies, which is becoming more volatile by the year. Exchange rate volatility heavily impacts our profits and predictability of trade.

Outside of South Africa, the ongoing trade disputes between China and the US is destabilising the IT industry to an extent.

Much as COVID-19 took the world by surprise, we must keep a wary eye on credit risk and liquidity. Insurance companies are increasingly reluctant to underwrite credit risk, while the large amounts of bridging finance and relief cash injected into national economies during the lockdown phases will inevitably cease.

How did Mustek perform against the strategic objectives set by the Board last year?

I am pleased to report that we met most of our targets for the year, and in some instances exceeded our expectations.

Two objectives were not met, though neither have any material impact on the business. In the first instance, we were unable to dispose of identified non-core assets at acceptable prices. We were not surprised or concerned, given the current state of national economies. In the second instance, the Board decided to temporarily halt the share buyback scheme in favour of keeping cash in the business. This was clearly a prudent decision in the current economic circumstances.

On the more positive side, we saw the first signs of enterprise and academic education making a fundamental shift to online platforms such as Mecer Inter-Ed, a Group subsidiary providing online training solutions which was low key until recently. Mecer Inter-Ed recorded pleasing results and is attracting attention from inside and outside South Africa.

Although the Group's long-term strategy remains unchanged, we are currently focusing on navigating through the 2021 financial year, which requires a more immediate tactical approach.

Nevertheless, we will continue fulfilling long-term strategy by refining our product and service portfolios, while pursuing local and international partnerships to grow market share in diverse IT niches.

Discuss Mustek's operational performance for the year.

The Group's operational performance during the year mostly met or exceeded budgets, with the previously discussed exception of April 2020 when the country was in level 5 lockdown. Fortunately, sales recovered strongly in May and June 2020 on the back of trending demand for laptops, networking and storage IT infrastructure.

When the lockdown came into effect, Mustek was fortunate to have a large inventory of laptops in stock which sold quickly due to surging demand.

This pandemic once again proved the strategic value of our diversified portfolio across a range of IT product and service niches.

On the downside, the volatile exchange rate and ongoing Rand depreciation against other currencies has continually challenged our pricing and cost of sales.

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

Discuss Mustek's operational performance for the year.

In a nutshell, Mustek's divisions and subsidiaries performed as follows:

- Mustek reported healthy profits
- Rectron's contribution was down from the comparative period and included an increase in expected credit loss allowance of R10.2 million due to an increase in the percentages used in calculating the Group's expected credit losses, very limited trading during the level 5 lockdown in April 2020 and R1.9 million spent on COVID-19-related expenses. The Group remains positive about Rectron's prospects after it added HP Printers, Zebra and DJI Enterprise to its range of products during the second half of the financial year
- Sizwe produced a pleasing set of results
- Khauleza repeated its pleasing performance of the previous year
- YOAC generated significant operational profits in a fast-growing market, but was hampered by foreign currency losses incurred due to the depreciation of the ZAR/USD and ZAR/CNY exchange rates. Most of its raw material is sourced from its parent company, YOFC, which invoiced YOAC in either USD or CNY. YOFC agreed to invoice YOAC in ZAR from June 2020 in order to avoid such exchange losses in the future
- Mecer Inter-Ed returned to profitability and is emerging as a sought-after online trainer of Microsoft, Huawei and other IT certifications.

What could the future look like for Mustek?

What the pandemic highlighted for me in the best possible way was the outstanding entrepreneurial spirit that fuels the Mustek corporate culture. Our people took action to demonstrate the best technology brains in the industry, coupled with our locally unparalleled breadth of IT solutions. Mustek is fast evolving into an IT "one-stop shop" for many clients.

COVID-19 has shown us the folly of forecasting the future. Nevertheless, I have a few thoughts on what lies ahead for Mustek and the impact of accelerating technology on human society.

As the adoption of technology accelerates across nearly every sector, every family member will need their own devices for school, work and entertainment. In time, they will move from entry-level equipment to more specialised devices, while many thousands more – students in particular – will enter the technology market every year.

Families and companies are reshaping their budgets to fit a new reality. Logic dictates that travel and commuting budgets will be redirected towards IT and connectivity, while companies will exit unneeded office space to provide for remote working. This should release additional funds for IT.

The future looks bright for Mustek, but first we must remain sustainable through a likely economic recession over the next year or two. Fortunately, the Group has retained substantial reserves and will take a conservative approach to acquiring new opportunities or products at this unpredictable juncture.

Q

Are there any individuals or groups you would like to thank in this year's report?

Our people are at the heart of what we do and the value we deliver. Thank you to all at Mustek for the incredible work you do, particularly in the challenging time we are facing. During the lockdown period, as a consequence of COVID-19, you have further shown your dedication and tenacity by enabling us to continue to serve our clients and the broader societies through a complex and difficult time – I am deeply grateful.

I thank our retail and wholesale clients for choosing to partner with Mustek. We appreciate the support of shareholders, as well as all other stakeholders who continue to work with us to create a better South Africa for all its people. While Mustek will not escape the market impact of COVID-19 unscathed, the Board, together with management, are working tirelessly to continue to build a sustainable company.

Thank you to our chairman, Board and the executive team for their leadership and skillfully steering the ship in stormy waters. The team quickly pivoted to manage the crisis brought on by COVID-19 and I am confident in the leadership team's ability to successfully navigate us through this extraordinary time.

David Kan
Chief executive officer

OUR TOP RISKS AND OPPORTUNITIES

RISK DESCRIPTION	RISK ANALYSIS – IMPACTS	RISK ANALYSIS – MITIGATING CONTROLS IN PLACE
Weakening of the ZAR against the USD	Significant forex losses may result from significant increases in USD-denominated accounts payable.	• Foreign currency liabilities are hedged by means of forward exchange contracts (FECs) and options • The CEO and FD manage USD exposures • Coverage is always taken at a minimum of 70%.
Theft of stock, including: • External (armed robbery) • Vehicle hijacking	Possible consequences: • Physical harm to staff, potential loss of life • Financial loss to the business • Loss of customer confidence and therefore market share • Increased dismissals and loss of staff, which may further lead to litigation costs • Reputational damage.	• 24/7 on-site monitoring of Mustek's premises using Securitas perimeter cameras • Project to review all security controls has been established.
Loss of information privacy and/or integrity due to unauthorised access by employees or external hackers.	Possible consequences: • Loss of information privacy or integrity • Occurrence of fraud leading to financial loss • Contravention of the Protection of Personal Information (POPI) Act • Loss of investor and customer confidence.	• Firewall software is installed and monitored • User accounts and network access are managed by means of programmed access restriction • Changes in access need to be authorised by the staff member's line manager • The integrity and privacy of data transmission are protected by means of encryption • An awareness programme was conducted by way of face-to-face training provided by IT • Policy regarding Cybercrime defined by IT.
Business continuity and contingency planning due to COVID-19	These realities may lead to reputational risk and loss of business due to lack of human resource capacity or shutting operations for several days to decontaminate, investigate and re-evaluate controls.	• COVID-19 policy • Risk assessment and SOP • Medical surveillance procedure • Reporting of possible infection procedure • Special arrangements for high-risk staff (who would be more significantly affected) • Social distancing rules and regular handwashing/ sanitising practices • Wearing of masks is compulsory for everyone. • Consistently educating staff on safe practices for protection both at the workplace and while travelling.
Change in macroeconomic trends	As a global player, the Group is exposed to the world's developed and developing markets. Its operations and financial results will be impacted by trends in the macroeconomic environment. Currently Eskom's management of the power grid and its debt is brittle, risking the country and impacting the exchange rate.	• Putting additional focus on working capital management largely reduces the impact as the risk lies in lower demand and stock obsolescence • Review and reduce operating costs • Additional focus from CEO, managing director, and brand executive regarding stock management • Orders must be authorised before product manager can place the order with supplier.

RISK DESCRIPTION	RISK ANALYSIS – IMPACTS	RISK ANALYSIS – MITIGATING CONTROLS IN PLACE
Unacceptable return on capital	Possible consequences include: • Loss of investor confidence • Loss of banking facilities • May compromise the "going concern" assertion of the company.	• Establishment of annual return on equity (ROE) target linked to short-term incentive bonus • Monthly review of management accounts • Regular Exco meetings where performance is measured against budgets.
Sales fraud risk	Orders placed fraudulently under a customer's account, or unfair collusion between sales people and dealers could lead to: • Reputational damage • Financial loss in the form of dispatched stock disputed by the customer • Loss of customers due to broken trust/ integrity of Mustek.	• Maximum limit of the on-time password (OTP) agreed by Exco as R20 000 • Credit policy has been reviewed and updated • New customers are called by the credit vetting clerk before applications are processed • Annual review is conducted to check conflicts of interest with staff • Staff are reminded and encouraged to make declarations annually or as applicable.
Political and social instability	South Africa's political and social stability impacts the economic environment, leading to downgrades, recession, lack of policy certainty and lack of implementation of approved policies and plans. Land expropriation without compensation policy is also causing business instability.	• Remain vigilant and flexible • Manage operational efficiencies.
Closure of Chinese factories	Due to the COVID-19 outbreak in China, factories were shut down and production halted. As a result, receiving and replenishing stock has been significantly compromised.	• Sales staff were informed to avoid back orders on affected items • National Treasury was requested to roll over government budgets into the new financial year, to allow orders to be fulfilled later than originally planned • Current stock on hand of affected items is being very closely managed • All staff travel to China has been cancelled.
Increasing overlap of shared customer contribution between the Mustek and Rectron companies	• Loss of profit due to both companies offering the same product to the same target markets at different pricing can result in lower margins • From a Group level, not leveraging the advantages offered by economies of scale. This risk will only be effectively mitigated when both companies are on the same business software system with the same policies and controls.	• The Mustek Group executive management has overview of both companies and can develop strategies to manage product overlap between the companies • Adoption of the same business software system within Mustek and Rectron enables useful comparison of results.

MATERIAL CONCERNS

Mustek's Board and executive management present the information in this integrated annual report as relevant or "material" to its shareholders and key stakeholders for a properly informed understanding of Mustek's performance over the past year, as well as for insights on its forward strategy.

The Board and executive management evaluated the source information with two primary questions in mind: "Who is our reporting aimed at?" and "What decisions will they be able to make from our reporting?" When deciding what information should be included, the leadership considered the relative importance of each matter in terms of the known or potential effects of these on Mustek's ability to continue creating value. These were prioritised for relevance to the report users, so that non-pertinent information could be set aside, or shared through other channels. We report on financial, commercial and sustainable development issues that could impact our ability to create value now and in the future.

Mustek's potential material matters emerge through our risk management process and shareholder feedback. The Board's Audit and Risk Committee meets at least once a quarter to review all risk management processes, procedures and outcomes. When necessary, external experts facilitate the identification of risks and how these should be mitigated. Risk is discussed in the corporate governance section of this report.

Once identified, these potentially material issues are subjected to a materiality process that considers:

- a topic's qualitative and quantitative aspect
- the influence, legitimacy and urgency of the stakeholder raising the topic
- the boundary of the topic
- Mustek's ability to effect change with regard to its impact on the topic.

Ultimately the decision to report a topic as a material matter is based on the Board and management's view of the topic.

The following material matters are included in this section:

Operating environment

- Global pandemic
- South Africa's economy and the Rand exchange rate.

Financial

- Profitability and cash flow
- Credit risk.

Social

- Preserving key relationships.
- Attract, develop and retain adequately skilled employees
- Transformation and maintaining our social licence to operate
- Ethical behaviour and governance
- Health and safety of employees.

Strategic

- Anticipate ICT trends internationally and locally
- Positioning Mustek as a value-added solutions provider, not merely a distributor.

Environmental

- Energy and waste management.

Operating environment

Global pandemic

As societies become more connected through globalisation, the risk of the rapid spread of contagious diseases increases. This has been demonstrated with the escalating rate of infection associated with COVID-19. Since the start of 2020, the swift spread of this virus has resulted in a lockdown of approximately 20% of the global population, a near global shut down in manufacturing, and stringent travel controls restricting global movement.

The effects of a global pandemic significantly impact the technology sector, affecting the supply of raw materials, disrupting the electronics value chain and causing inflationary risk for products. More positively, the disruption caused an acceleration of remote working, and a rapid focus on evaluating and derisking the end-to-end value chain. In addition, potential carbon emission reductions could result in renewed focus on sustainability practices.

South Africa's economy and the Rand exchange rate

The ZAR/USD exchange rate is a defining factor in the ICT industry, as the bulk of ICT inventory is USD based. Mustek is exposed to events that occur in the markets from where it acquires products, as well as to the South African and other markets to which it offers products and services.

Exchange rate fluctuations affect prices, and the Rand's propensity for sharp movements against other major currencies is an ongoing challenge. During March 2020, one-month implied volatility for the ZAR versus the USD climbed to the highest in more than eight years, which will naturally impact on our financial results.

Mustek cannot influence broader economics but does apply a hedging policy to minimise foreign currency exchange risk and retain a broad spread of suppliers. Mustek's Board and management annually review the Group's strategy, budgets and risks in light of prevailing and predicted macroeconomic conditions. However, they cannot assure that adverse local and international macroeconomic conditions will not materially impact Mustek's financial results.

The COVID-19 outbreak has placed significant pressure on an already difficult macroeconomic environment. While the scale of the outcome remains uncertain, it is clear it will have significant long-term ramifications for the global economy and will compound existing macroeconomic challenges in our key markets.

Financial

Profitability and cash flow

Growing sustainable profits year by year to generate cash inflow is the Group's primary objective. Cash generation enables Mustek to create and develop value in all parts of its business. The resilience of our earnings is founded on the relationships with both vendors and resellers. Earnings growth is achieved by acting on opportunities created by technology and the collective skills of our workforce.

Profitability and cash flow are the two most visible indicators of the Group's financial performance and the primary indicators of management's success. Overall, profitability comprises a variety of elements, including sales volumes, gross profit percentages, operating expenses, finance costs and tax rates.

The importance of the Group's profitability cannot be understated and almost every Group activity is directed towards improving profitability or cash flow. Profits, especially cash profits, allow the Group to pay dividends to its shareholders, meet its obligations and reinvest in the future of the business.

Insurer limits and credit risk

COVID-19 is disrupting the ability of our customers to maintain their debt obligations, including insurance cover. Taken together with recent legislation aimed at borrower relief, these impacts are challenging traditional insurance models and risk management frameworks for both consumers and commercial lenders.

COVID-19 and its economic consequences are prompting insurance companies to avoid additional risk while many businesses close their doors or are liquidated, although the IT industry has remained robust to date.

For Mustek, the practical outcome is that it is more difficult to obtain credit insurance on our customers, meaning that the insured percentage of Mustek's debtor book is decreasing.

The IT industry, among others, needs a fresh approach to underwriting insurance, monitoring risk and mitigating customer and supplier losses.

Social

Preserving key relationships

A breakdown in relationships with key suppliers and resellers would negatively affect Mustek's profitability. Maintaining strong relationships with both suppliers and resellers is fundamental to the Group's ongoing success. Underpinning this is Mustek's overall commitment to meeting ever-changing ICT needs by delivering the right products and services – at the right time, at the right price and by the right people.

Accomplished product and brand managers are tasked with adding value and building strong relationships with Mustek and Rectron's diverse range of international and local suppliers, while key account managers are expected to deliver excellent service to resellers and corporate clients. We ensure that our employees are well equipped to deliver excellent service. They are, in turn, supported by processes and systems aimed at ensuring seamless transactions.

Mustek's product portfolio is among the broadest in South Africa, incorporating client computing, networking, data centre computing, security, software, peripherals and numerous specialist market segments.

Mustek and Rectron continually seek means for enhancing our service offering to resellers, including:

- keeping abreast of global ICT trends and consistently delivering innovative and fairly priced products
- expanding our footprint throughout South Africa and ensuring Mustek and Rectron sales teams are readily available in all regions
- continually improving our online sales and support portals
- actively supporting small, medium and micro enterprise (SMME) resellers to grow through enterprise development support
- instituting incentive and rewards programmes
- ensuring consistent quality of products by vetting all existing and incoming products in the Mustek and Rectron stables.

MATERIAL CONCERNS CONTINUED

Attract, develop and retain adequately skilled employees

ICT is the basis upon which our industry is built. Ongoing skills development and training are recognised as business imperatives, committing Mustek to developing skills, talent and future leaders from within the ranks of our employees.

Besides offering market-related remuneration, Mustek fosters an empowering work environment that supports a culture of learning and development. Mustek enables individual career path choices, supported by skills development programmes and prioritising internal transfers and promotions. Preference is given to employees from previously disadvantaged backgrounds.

Transformation and maintaining our social licence to operate

South Africa has among the highest levels of inequality, unemployment and poverty globally. Mustek's divisions readily accept their responsibility to address the imbalances of the past by working to continually improve their B-BBEE scores in terms of the ICT sector codes, while meeting and exceeding the requirements of related legislation such as the Employment Equity and Skills Development Acts.

For decades, Mustek has been renowned for training previously disadvantaged persons to participate in the ICT industry, with our previous employees contributing throughout the sector. As a responsible corporate citizen, we contribute year after year to educating South Africa's learners through school support programmes and dedicated technology.

Ethical behaviour and governance

Recent scandals in South Africa have again highlighted the consequences of corruption and mismanagement, reducing consumer confidence and ultimately leading to lower investment sentiment. This has a direct impact on our business, as investors and customers are cautious to invest in local growth opportunities.

Rising corruption, environmental and social challenges, as well as increasing white collar crimes, are motivating companies to embed strict corporate governance and ethics policies. Mustek's governance structures and policies are regularly reviewed against best practice for ethics and whistle-blowing, looking beyond mere compliance. The Board is committed to achieving its goals with integrity, while being a responsible corporate citizen. The Board has adopted a Code of Ethics and Business Conduct, which sets the tone for an ethical culture within the Group. The Code of Ethics and Business Conduct is included in employee induction as well as regular training programmes.

Health and safety of employees

Measures for protecting workers from exposure to, and infection with COVID-19, depend on the type of work being performed and exposure risk, including potential for interaction with people with suspected or confirmed COVID-19 and contamination of the work environment. Mustek has adopted infection control strategies based on a thorough hazard assessment, using appropriate combinations of engineering and administrative controls, safe work practices, and PPE to prevent worker exposures. The Group has also provided extensive training on elements of infection prevention, both within the work environment and while travelling.

Strategic

Anticipate ICT trends internationally and locally

Mustek aims to be South Africa's ICT supplier of choice by providing end-to-end products and solutions. We must remain competitive in one of the quickest evolving industries in the world by responding swiftly to local and global trends.

The world's biggest technology brands will adapt their offerings to fit global trends. Therefore, Mustek must assess whether the African market will adopt specific products or platforms before adding these to our inventory. Over the past five years, Africans have embraced ICT innovations quickly, especially in the mobile telecommunications and in the IT segments. The next wave about to hit the continent will include new infrastructures such as broadband fibre optic cables and data centres.

Mustek regularly monitors trends such as South Africa's digital transformation efforts and how IoT will reshape organisations, people and hardware. COVID-19 has expanded demand for alternative solutions in the context of the "new ways of working".

Positioning Mustek as a value-added solutions provider, not merely a distributor

Although founded in 1987 as primarily a distributor of PCs and ICT products, Mustek's current strategy is to add value through new services and solutions, while broadening its range of brands and products.

As a value-added distributor at the centre of the technology supply chain, Mustek is ideally positioned to enable both IT vendors and solution providers to most effectively reach and support businesses of all sizes in any industry.

Environmental

Energy consumption and greenhouse gas (GHG) emissions

Mustek continually focuses on operational efficiencies and cost management. Becoming more energy efficient is a win-win situation, as it reduces environmental impacts while delivering measurable cost reductions. Mustek installed solar panels on the roofs of its Midrand and Cape Town premises, with Rectron following suit by installing solar panels on the roofs of its Midrand and Port Elizabeth premises. Since 2016, Mustek utilises an EnMS to reduce energy consumption and costs further. Mustek is an industry leader in mitigating environment impacts through solar power.

STRATEGY

Our business strategy is delivering results and remains essentially unchanged for the next year. Our strategy expertly applies financial, intellectual, manufactured and human capital to the creation of value for all stakeholders. Although simple, it is much easier said than done. It is based on anticipating and providing for trends that tech-savvy customers will pursue.

Mustek takes an approachable and flexible “can do” attitude to assist our customers in identifying specifications, sourcing products and formulating solutions. We offer a wide-ranging choice of hardware, combined with superior technical expertise, service and support, to address every level of the ICT stack.

The Group offers its goods and services through various business units, the two largest being the Mustek and Rectron divisions. These two companies engage two adjacent ICT market segments.

Mustek’s 40% shareholding in Sizwe Africa IT Group supports our growth in tandem with a dynamic young IT business.

A strategic 36% shareholding in Khauleza IT Solutions further supports our objective of being the preferred single point of contact for all ICT requirements in South Africa. Khauleza provides industry-leading hardware, computing accessories, technical skills and consulting services, primarily to an expanding network of SMMEs.

This strategy enables Mustek to perfectly match customer technology needs. These can be highly customised solutions, or mainstream packages derived through tried and trusted best industry practices and competitive pricing.

Mustek’s position in the South African market has been built on an unwavering commitment to customer satisfaction; the development of some of the most sought-after relationships in the international ICT market; adherence to stringent international quality standards; and a staffing policy that motivates highly trained and experienced employees to remain in the Mustek fold.

All of this culminates in Mustek being one of the most accessible and professional distributors and end-to-end solutions providers for South African corporations and enterprises of all sizes.

STRATEGY CONTINUED

Performance against strategic goals

Grow our training and enterprise development centre	
Performance this year	Mecer Inter-ED is starting to show pleasing profits. The smart education and learning market is expected to grow as more education institutions realise the importance of digitisation in the mobile and connected world. We are excited to support schools and universities with digital education deployment and to assist them in taking advantage of this growth opportunity.
Future initiatives	Providing training to countries outside of South Africa as Rand price is so attractive and IT skills are needed all over the world.

Enhancing our portfolio	
Performance this year	Our investments in new product lines such as networking equipment, sustainable energy and fibre are starting to contribute meaningfully to both revenue and profit. The growth in fibre-to-the-home (FTTH) is not only assisting our fibre sales, but also increasing the demand for new devices in order to fully benefit from the faster internet speeds.
Future initiatives	The Group will continue exploring opportunities to add additional products to its offering in order to better utilise its infrastructure.

Dispose of non-core assets	
Performance this year	The conditions required for selling underperforming assets were not met during FY20.
Future initiatives	Continuing programme specifically focusing on disposing the property in Nairobi, Kenya

Continue share buyback while earnings enhancing and trading at a discount to tangible net asset value (TNAV)	
Performance this year	We elected not to pursue our share buyback programme during FY20. Although the Group has sufficient cash resources at present, the Board believes it prudent to preserve the maximum amount of cash possible during these uncertain times.
Future initiatives	The share buyback programme remains on our agenda and we will continue notifying investors of Mustek share buybacks in accordance with JSE and applicable regulations.

Looking ahead

Our strategic priority during the next six to 12 months is to successfully navigate the impacts of COVID-19. Although our broad strategy remains unchanged, the global pandemic could still prompt swift realignments. Certain planned initiatives are currently on hold until the operating environment stabilises.

Strategic objectives for 2021:

- Grow our training and enterprise development centre
- Dispose of non-core assets
- Continue share buyback while earnings enhancing and trading at a discount to TNAV
- Maintaining sufficient liquidity
- Safeguarding the health and safety of our employees.

MUSTEK'S PERFORMANCE

Six-year financial review

for the year ended 30 June 2020	2020 R000	2019 R000	2018 R000	2017 R000	2016 R000	2015 R000
SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Revenue	**6 397 419**	5 845 907	5 671 293	5 243 147	5 432 617	5 310 102
Cost of sales	**(5 487 275)**	(5 028 353)	(4 875 873)	(4 581 639)	(4 737 192)	(4 624 183)
Gross profit	**910 144**	817 554	795 420	661 508	695 425	685 919
Distribution, administrative and other operating expenses	**(662 907)**	(574 353)	(601 857)	(459 043)	(481 764)	(430 273)
EBITDA	**247 237**	243 201	193 563	202 465	213 661	255 646
Headline profit	**88 992**	98 530	81 033	73 950	77 396	132 838
SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION						
Assets	**3 627 154**	3 097 323	2 930 447	2 980 199	3 085 558	3 458 183
Property, plant and equipment	**187 939**	184 981	170 478	156 237	152 458	174 709
Right-of-use-assets	**29 956**	–	–	–	–	–
Intangible assets	**126 832**	108 794	100 261	93 516	67 059	62 843
Investments and loans	**195 858**	183 776	177 256	180 926	152 657	139 131
Deferred tax assets	**30 710**	25 478	21 923	16 572	17 312	29 593
Current assets	**3 055 859**	2 594 294	2 451 109	2 532 948	2 696 072	3 051 907
Assets classified as held-for-sale	**–**	–	9 420	–	–	–
Equity and liabilities	**3 627 154**	3 097 323	2 930 447	2 980 199	3 085 558	3 458 183
Equity attributable to equity holders of the parent	**1 118 659**	1 045 944	984 436	970 333	987 918	993 748
Non-controlling interest	**8 012**	7 448	8 879	8 128	(581)	19 268
Long-term borrowings	**42 264**	8 684	6 251	5 637	499	23 127
Lease liabilities	**10 139**	–	–	–	–	–
Deferred tax liabilities	**6 213**	8 103	8 898	10 617	4 504	4 576
Non-current contract liabilities	**17 686**	17 514	15 788	13 215	12 632	15 627
Current liabilities	**2 424 181**	2 009 630	1 906 195	1 972 269	2 080 586	2 401 837

MUSTEK'S PERFORMANCE CONTINUED

Ratios

for the year ended 30 June 2020	2020	2019	2018	2017	2016	2015
KEY BALANCE SHEET FIGURES						
Total assets (R000)	**3 627 154**	3 097 323	2 930 447	2 980 199	3 085 558	3 458 183
Ordinary shareholders' equity (R000)	**1 118 659**	1 045 944	984 436	970 333	987 918	993 748
Return on ordinary shareholders' equity (%)	**8,0**	10,3	8,2	7,5	7,5	13,9
Net asset value per share (cents)	**1 598**	1 494	1 349	1 169	1 008	959
MARKET INFORMATION AT 30 JUNE						
Ordinary shares in issue	**70 000 000**	70 000 000	73 000 000	83 000 000	98 000 000	103 623 471
Weighted average number of ordinary shares	**70 000 000**	70 722 365	77 802 385	91 003 326	100 674 409	106 228 765
Headline earnings per share (cents)	**127,1**	139,3	104,2	81,3	76,9	125,1
Market price per share (cents)						
– year-end	**704**	810	685	423	530	870
– highest	**934**	930	725	576	945	980
– lowest	**411**	600	353	385	451	670
Number of transactions	**2 121**	1 482	2 809	3 569	5 607	3 480
Number of shares traded	**13 860 073**	17 988 167	29 435 720	34 842 319	32 317 053	28 380 892
Value of shares traded (R)	**94 602 044**	137 351 616	166 329 804	161 864 002	244 417 366	231 259 869
Percentage of issued shares traded (%)	**20**	25	38	38	32	27
LIQUIDITY AND LEVERAGE						
Interest cover (times)	**2,5**	2,3	2,5	2,3	2,3	4,3
Net cash from (used in) operating activities (R000)	**339 520**	(171 352)	149 281	99 859	13 233	254 771
Current ratio (times)	**1,3**	1,3	1,3	1,3	1,3	1,3
PROFITABILITY						
Operating margin (%)	**3,9**	4,2	3,4	3,9	3,9	4,8

Glossary

EBITDA – Earnings before interest, taxation, depreciation and amortisation

Return on ordinary shareholders' equity – net profit for the year as a percentage of average ordinary shareholders' equity (net assets)

Net asset value (ordinary shareholders' equity) – total assets less total liabilities

Interest cover – EBITDA divided by net interest paid

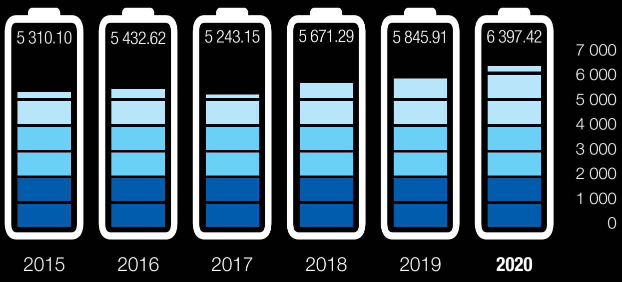
Current ratio – current assets divided by current liabilities

Operating margin – EBITDA as a percentage of revenue

Performance indicators over time

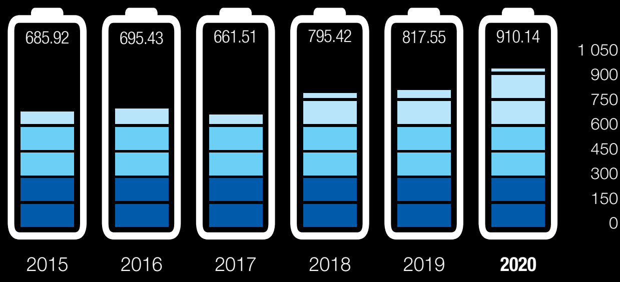
Revenue

(R million)



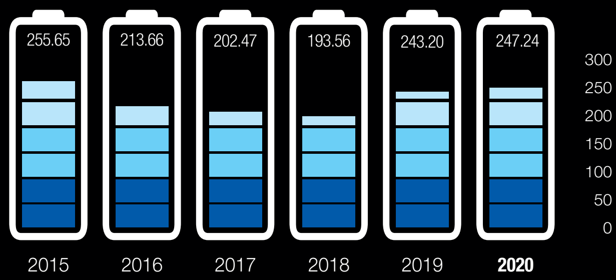
Gross profit

(R million)



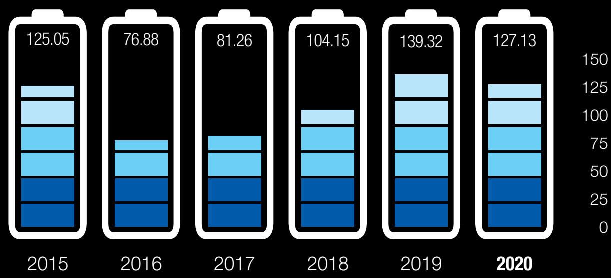
EBITDA

(R million)



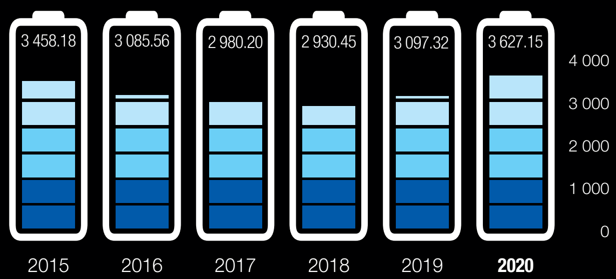
Headline earnings per share

(Cents)



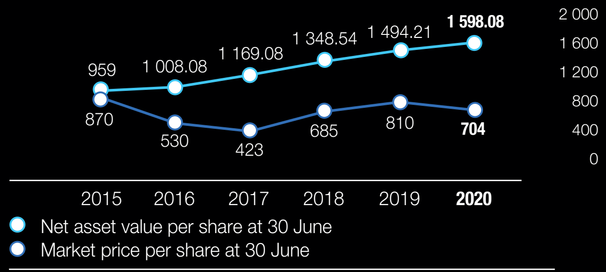
Total assets

(R million)



Share price vs NAV at 30 June

(Cents)



GROUP STRUCTURE

Mustek

Mustek LIMITED

SUBSIDIARIES

- Mustek
- Rectron
  - Palladium
- Mecer Inter-ED

ASSOCIATES

- Sizwe Africa IT Group 40% shareholding
- Khauleza IT Solutions 36% shareholding
- Yangtze Optics Africa Holding 25.1% shareholding

Mustek branch locations

Who we are

THE MUSTEK GROUP WAS BUILT ON THE MECER BRAND ESTABLISHED IN THE 1980s.

Ongoing demand for Mecer-branded hardware enabled Mustek to develop South Africa's largest and most versatile ICT assembly line and a service department, with a reputation second to none in the country.

Mustek has strategically added international brands across the IT hardware universe as the components of an endless variety of ICT solutions for end-users.

What Mustek does

Mustek meets the ICT requirements of a wide range of end-users through its distributed sales network. It procures, assembles, distributes and services a comprehensive range of ICT products to a network of more than 3 600 resellers.

In recent years, Mustek added specific ICT services to complement its hardware, recognising that clients increasingly prefer a single point of contact for all their ICT requirements.

The Mecer range

Mustek's proprietary brand, Mecer, has remained at the forefront of technology by offering superior-quality, custom-designed computing solutions for all sectors of the South African market. All Mecer desktops and notebooks incorporate the required local and international IT standards. Mecer has been one of South Africa's top-selling PC brands over the past three decades.

The Group's modern computerised assembly line is the largest semi-automated computer assembly line in South Africa and has flexibility for build-to-order and/or customisation. The assembly line allows individual units to be tagged, linking back to the original case serial number as well as a configuration management database that records all date and time stamps.

A portfolio of international brands

The Mecer brand is complemented by a stable of quality imported brands. Other divisions within Mustek support the PC assembly operation by importing and distributing components and peripherals or providing networking and specialised services. Mustek's strategic position between international manufacturers and the local market adds considerable value to the regional ICT industry through local assembly, branding and marketing. This value chain is supported by competitive pricing due to Mustek's ability to finance deals at attractive rates and obtain bulk discounts on consolidated shipments.

Through the supply of configuration and customisation, tried and trusted best industry practices, and competitive pricing, Mustek is positioned to service a wide range of technology needs.

B-BBEE status and human development

Mustek is a level 1 B-BBEE contributor with ongoing skills development and training recognised as a business imperative. Its B-BBEE status and human resources (HR) policies are covered in more detail in the human capital section on page 64 of this report.

Recent financial performance/overview

Mustek's financial performance can be comprehensively reviewed in the financial statements provided with this report from page 115.

Future prospects and forward planning

South Africa is a developing nation with an ever-growing demand for new technology. With its broad product offering and in-depth understanding of its value proposition, Mustek continues to secure a sustainable future for the Group and its stakeholders.

RECTRON

Rectron at a glance

MAJOR ACTIVITIES
Rectron is an ICT distributor that provides services through a reseller channel to southern African end-customers

MARKETS SERVED
Southern African consumers: small to medium-sized enterprises, businesses, government and academic institutions, served indirectly through a reseller and retail channel

CORE BUSINESS VALUE
To be an innovative, customer needs-led organisation, delivering value to our stakeholders

In 2007, the remaining shares in Rectron was acquired by Mustek Limited to become a wholly owned subsidiary.

FOCUS
Developing and servicing a wide pool of resellers according to their changing needs

PRIMARY PRODUCTS
IT components, mobile solutions, gaming products and components, software, printing solutions, consumer products, cloud solutions, point of sale, data centre solutions, surveillance, as well as enterprise solutions

BRANCHES
Five branches, based in Midrand, Cape Town, Durban, Port Elizabeth and Bloemfontein

Rectron branch locations

Who we are

Rectron is a proudly South African company and one of the powerhouses in the South African IT distribution landscape. We embrace digital transformation and are fully committed to growing and empowering the ICT channel in South Africa.

We offer best-of-breed hardware and software services and solutions to our core customer base comprising resellers, system integrators, managed services providers, e-tailers and retailers across southern Africa. The “kingpin” of our organisation is innovation. We are driven by customer needs and the objective to deliver value to our stakeholders.

Rectron’s biggest asset is its passionate and loyal staff. We have a diverse and productive culture that celebrates and values accountability, respect, teamwork and trust. As testament to this, 37% of our entire staff complement has been with the company for over 10 years.

<Mission>

Rectron strives to be an innovative, customer needs-led organisation, delivering value to our stakeholders.

<Vision>

Rectron aims to be the partner of choice by delivering innovative, end-to-end solutions that enable successful, profitable partnerships.

<Philosophy>

Our main priority is to become one of the world’s greatest ICT distribution companies through the partnerships we have with our valued vendors, customers and employees. By working together, sharing tools, ideas, trust and respect, we are on track to reach greatness.

<Technology>

We will continue to source and supply the best quality solutions and services to enable our customers to build sustainable businesses that will thrive well into the future.

<Culture>

We believe that our open and developmental approach to staff empowerment played a pivotal role in developing the expert management team Rectron has today. Our unique employee-defined culture celebrates teamwork, trust, accountability and respect. We will continue to leverage this to build a positive working environment that promotes internal growth.

<Promise>

Pursuing excellence.

Rectron sells indirectly through a large and varied customer base. We pride ourselves on being southern Africa’s leading distributor to small and medium enterprise resellers. Our strategy of digital transformation is driving our efforts to make doing business with Rectron transparent and easy.

RECTRON continued

WHAT WE DO

WITH ONE OF THE MOST COMPREHENSIVE ICT PRODUCT AND SERVICE PORTFOLIOS IN SOUTHERN AFRICA, RECTRON IMPORTS AND DISTRIBUTES TO COMPUTER RESELLERS, RETAILERS AND SYSTEMS INTEGRATORS.

We are rapidly expanding the business into new offerings such as cloud services, enterprise solutions and licensing, while maintaining our position as the leading distributor of components in South Africa. By offering innovative solutions and services, we endeavour to make our sales channel a leader in technologies.

Rectron recognises that our customers' experiences are key to our success, and that these experiences define how we move forward. Leading with a customer-oriented mindset sees effective decision-making across each functional area of our business, ensuring we maintain a positive customer journey. Our customers rely on us to keep them ahead of the technology curve. This contributes to our ever-increasing expertise in supporting our customers and identifying their next layer of opportunities. With the rapid pace of change, particularly in the IT sector, we partner with our customers to help them retain long-term relevancy, while building a mutually profitable relationship. We aspire to push the boundaries in our product and services offering.

Rectron distributes some of the world's most renowned technology brands through an end-to-end portfolio that includes:

- scalable networking products
- mobility solutions
- cloud services and solutions
- components
- consumer electronics
- peripherals
- 3D printing
- gaming
- managed print services
- software solutions
- storage solutions
- point of sale solutions
- IoT products
- build-to-order PCs and servers
- surveillance
- security solutions
- vertical solutions, such as large format displays
- consumer and industrial drones
- data centre solutions.

In the 2020 financial year, we strengthened our offering by onboarding new brands in:
Enterprise solutions: Lenovo Data Center Group (DCG) and H3C
Printing hardware: HP
Consumer gaming: MSI
Enterprise solutions: DJI Enterprise drones

Rectron is a majority shareholder in Palladium, a proudly South African software vendor. Palladium has developed an accounting package for small to medium-sized businesses that is well suited to many of our customers and will generate additional revenue streams for Rectron. Palladium's operational review is available on page 40 of this report.

During 2020, Rectron was recognised as a gold level partner with DJI Enterprise.

Rectron's evolving business model

Digital transformation is key, and we are investing substantially in developing tools and processes to streamline our accessibility to customers. Our website has been upgraded into a 24/7 terminal for self-help and online ordering, and customers are encouraged to move business interactions online.

The introduction of our own local brand, RCT, offers reliable and robust hardware at affordable prices to the local market. Products in this portfolio include mobile solutions, peripherals, gaming PCs, power solutions, networking and cabinets, as well as RCT cloud solutions.

Rectron's five strategically located branches around South Africa are a crucial asset. Each branch is fully equipped for personal and world-class service. Rectron's walk-in support service is distinguished for its accuracy and speedy turnaround times. We save customers time through a "while you wait" testing and exchange service. Fast-moving devices and components are stocked onsite to further decrease the average turnaround time of such exchanges to less than 10 minutes.

Rectron is authorised to repair Gigabyte, Acer and Asus notebooks, Hisense TVs and phones, RCT inverters and UPS, Makerbot 3D printers, Poslab Point of Sale and Vivotek surveillance cameras.

Performance

Financial performance in 2020

Our investment into new product verticals and the enterprise development category, as well as being a customer needs-led organisation, allows us to adapt to industry needs and changes.

B-BBEE status and human capital development

Rectron is a certified level 2 B-BBEE contributor and supports local SMMEs through products, training and services. We give back to communities by providing much-needed technology to previously disadvantaged schools and community institutions.

We adhere to strict guidelines set by the ICT Charter surrounding employment equity, enterprise development and purchasing.

Our journey to fundamental digital transformation requires new skill sets for our employees. Each staff member receives specific job-related training to close skills gaps and prepare them for enhanced customer engagement.

We pride ourselves on creating opportunities for youth in South Africa through learnership programmes. They are provided with the necessary skills to enable them to become proficient in a working environment.

Funding from the Media, Information and Communication Technologies Sector Education and Training Authority (MICTSETA) was approved for a contact centre learnership National Qualifications Framework (NQF) Level 4, and we enrolled seven unemployed learners through this 12-month learnership programme during the 2019 financial year. All seven employees were offered permanent employment at Rectron upon completion of this learnership.

We also enrolled five employed learners based at our Cape Town branch during the 2019 financial year for a system support NQF Level 5 learnership.

The previous introduction of “Basadi” was met with positive feedback and results. Basadi, Sepedi for “women”, is an empowerment programme that aims to uplift the women of Rectron. It was implemented with the understanding that having more women in leadership and supervisory positions will lead to a positive change in the Rectron culture and ultimately have real, tangible business impact. It was launched with the full support of the Rectron executive team. The programme includes quarterly meetings and round tables, training and skills development, joint customer events, involvement in community-based initiatives, and a communications portal accessible to all staff.

Corporate social responsibility

Our Group corporate and social responsibility (CSR) programme is geared towards driving educational activities and opportunities within the ICT sector. Our focus has shifted from fulfilling once-off requests to supporting sustainable projects with longer-term partnerships and measurable results. Code for Change, previously Change the World Trust, partnered with Rectron in 2007. This non-profit organisation (NPO) provides coding skills and empowers digital entrepreneurs in secondary schools. Code for Change believes that South Africa’s youth possess the idealism, enthusiasm, energy and intellect needed to transform today’s society; they simply need the tools to do so. Rectron provides various schools and facilities around the country with these tools in the form of notebook computers.

New beneficiaries in the 2020 financial year included the Etafeni Trust. They are situated in Nyanga, one of the oldest townships in Cape Town. The Etafeni Trust, in partnership with the local community, built a multipurpose day care centre in Nyanga which caters to the needs of vulnerable children, those who care for them, and the community who will necessarily be their safety net. Rectron’s donation of ICT infrastructure was used to enhance each student’s basic computer literacy and assist them with homework and assignments.

Future prospects and forward planning

Rectron’s long-term sustainability relies on the company evolving its strategy in line with customer needs.

To do this, we have a more solutions-focused approach, driven by existing and emerging trends. As an example, we implement solutions that enable remote working for our customers.

RECTRON CONTINUALLY SEEKS OUT INNOVATIVE PRODUCTS THAT CAN GROW OUR CUSTOMER BASE AND CREATE NEW REVENUE STREAMS.

RECTRON continued

FY20 priorities

Financial capital

- Working capital management
- Maximised return on equity
- Forex management
- Operating expenses optimisation
- Retained level 2 B-BBEE status.

Go to market

- Business development in new verticals according to customer needs.

Customer focus

- Continued focus on superior customer experience
- Customer needs-driven decision-making
- Digital transformation.

Human capital

- Prioritise the health and safety of our staff during these COVID-19 times
- Drive a culture of "we serve" in all departments
- Drive diversity through the Basadi programme
- Nurture talent at Rectron.

Rectron executive team

Spencer Chen
Managing director

Martin Roets
Operations director

Christiaan Engelbrecht
Financial director

Mathew Hall
Product director

Elaine Wang
Cloud and software solutions director

RECTRON continued

PALLADIUM

Palladium is a subsidiary of Rectron, a wholly owned subsidiary of Mustek Limited.

MAJOR ACTIVITIES
Accounting and related enterprise resource planning (ERP) software products

MARKETS SERVED
Small, medium and larger enterprises

STANDARDS
Microsoft Gold Competency Partner

Acumatica Certified Gold Partner

FOCUS
Supplying ERP and related business software aimed at improving business processes, to increase turnover by optimising margins and improving operational efficiency

PRIMARY PRODUCTS
- Palladium Enterprise
- Acumatica Cloud ERP
- Palladium Payroll
- Palladium Alerts (Robotics)
- Palladium Mobile Sales and Warehouse Management System (WMS)
- Student Management System (SMS)

BRANCHES
Fourways, Johannesburg

Milnerton, Cape Town

Who we are

Palladium's business software range offers businesses a highly affordable, complete end-to-end ERP solution range. We increase operational efficiency by using basic robotics to reduce mundane tasks. This frees up employees to focus on more important activities.

As one of few South African-owned accounting software companies on the market, we can adapt more quickly to changing local requirements than our competitors. The software enables complete flexibility within cloud or desktop deployment options. The Palladium solution has an embedded virtual private network (VPN) capability, allowing users to work from anywhere and alleviating the need to have a server at the office.

What we do

PALLADIUM HAS TWO BUSINESS UNITS:

- The Acumatica Cloud ERP division focuses on the sale, support and modification of the Acumatica cloud ERP product range to larger businesses in Africa.
- The Palladium Accounting Software division focuses on the development, sale and support of the Palladium product ranges throughout Africa.

PALLADIUM'S OWN ERP SOFTWARE FEATURES ARE DEVELOPED IN LINE WITH THREE CORE BUSINESS SUCCESS VALUES:

- increasing turnover
- optimising margins
- improving operational efficiency.

Palladium uses Microsoft technologies to develop all their products. Customers can choose between a subscription or perpetual model, with added options for additional support.

<Palladium Accounting Software products>

> PALLADIUM ERP

Palladium's ERP solution caters from the start-up, single-user business right through to large organisations. Basic features include full transactional data storage with document storage on every processing screen and Masterfile. Upsell items assist in increasing turnover while order or quote cancellation reasons allow customers to analyse the opportunity cost of running the business. Customers can use approvals to manage costs or even price over-rides, whether it is on the desktop application or on a mobile phone.

> PALLADIUM ACCOUNTING INDIVIDUAL

This solution is completely free of charge to the customer, aimed at start-up businesses. It is a fully functional application which includes invoicing, a general ledger, and accounts with customers and vendors.

Performance 2020

The 2020 year was a significant development year with the final development of our Payroll, Mobile and Magento Integration modules, coupled with the release of our Palladium Premium edition. While our ad hoc consulting revenue fell by just under R2 million, it was replaced by a strong increase in annuity revenue (R2.5 million), resulting in overall income growth.

From a brand perspective, Palladium is becoming more well-known and we are seeing a resurgence in the number of people who want to join our reseller programme throughout Africa.

Future prospects and forward planning

Palladium is unique to the South African accounting software landscape in that we are in the process of converting our application to a browser-based offering. The market for legacy software in South Africa is saturated and there are only a few true cloud-based solutions available that cater for the mid-tier market. In order to remain competitive, businesses will need to adopt smart, cloud-based business applications that offer viable alternatives to the unwieldy, inflexible and expensive systems that have long dominated the sector.

Resellers will gain more revenue and profit from the products that Palladium offers than from other products that they simply resell. Palladium allows them to provide their customers with consultation and additional services opportunities.

Through the Palladium investment, Rectron will offer its partners the necessary support and services to grow their businesses around cloud and managed services.

<Complementary products and modules>

> BUSINESS ALERTS MODULE

The Business Alerts module enables customers to monitor their business by exception. Business Alerts create a centralised communication hub by monitoring data fields in the customer's Palladium or ERP database for specified activities. Examples of alerts include changes to credit limits, credit notes, or sending an automated email to a sales person advising them of inactive customers.

> PALLADIUM PAYROLL

Payroll is a cloud-based product that is compliant with all the relevant South African legislation surrounding payrolls. The solution includes a free Employee Self Service (ESS) module, allowing staff to perform basic features like view previous payslips or apply for leave.

> MAGENTO WEBSTORE PLUGIN

This module allows our clients to have a fully fledged business to business (B2B) or business to consumer (B2C) store up and running in no time. It integrates orders, customers, inventory items, images and customer receipts directly into the accounting software application.

> OFFLINE PoS

Our Offline PoS module is a fully standalone PoS terminal with dynamic online/offline capabilities, removing the need for a local network cable or internet connection.

> MOBILE SALES AND WAREHOUSING

Our mobile application suite offers full warehousing and mobile salesforce capabilities. It includes goods, receiving, picking, packing, putaway, warehouse and bin transfers, delivery advices, POD management, sales orders and quotes with sign-on-glass capabilities, and GPS tracking to locate drivers or sales representatives.

MECER INTER-ED

Mecer Inter-ED (MIE) at a glance

MAJOR ACTIVITIES
Education solutions

MARKETS SERVED
Corporate clients across all sectors, government departments, private learners

ACCREDITATIONS
MICT SETA, Services SETA, EWSETA, QCTO accredited, CompTIA Authorised Partner, Microsoft Learning Partner, Huawei Authorised Learning Partner, LPI, Python, PeopleCert Authorised Learning Partner (ITIL and DevOps) and Pearson VUE Exam Centre

FOCUS
Extensive training solutions ranging from skills development and qualification programmes to international accredited certifications.

MIE aims to address the total skills profile of IT professionals across various industries.

PRIMARY PRODUCTS
- ICT vendor certifications
- Learnerships, internships and skills programmes

BRANCH
Johannesburg, Gauteng

Who we are

Seeing a lack of recruitment and training opportunities for entry-level ICT learners, Mustek invested in MIE, a broad-based training provider accredited with various SETAs, and an approved partner for international certifications. MIE provides training, learnerships and internships not only to employees within the Mustek Group, but to their resellers, clients and anyone else in the ICT and other industries who has a need.

Catering for learners looking to enter the ICT industry as well those seeking career advancement, MIE realises Mustek's passion for people development in a tangible way. Its convenient location within Mustek's Midrand head office makes it easy for employees to further their studies and develop their careers. Management supports and encourages all staff to take advantage of the opportunities offered and a quick poll suggests that most employees take advantage of this perk.

The combination of our breadth of certification training, flexible classroom and virtual training options, in combination with our six-month schedule, makes MIE the training partner of choice. MIE provides corporate training in emerging technologies by providing our students with access to subject matter experts and delivering authorised and industry-leading instruction, through multiple delivery formats.

MIE is a level 2 B-BBEE contributor.

What we do

MIE provides SETA accredited skills development training, learnerships and internships. Our products and services also include international training and certifications as an authorised training partner for some of the biggest names in technology such as Huawei, Microsoft, CompTIA, Python, CertNexus, ITIL, DevOps and LPI. MIE can design a learning solution or training programme to address any team's skills gaps and develop personalised training programmes across all levels and technical requirements.

Our products and services can be tailormade according to clients' needs, to be presented either in person or through virtual instructor-led training (VILT). Our highly qualified, cross-vendor-certified instructors will deliver training that includes extensive hands-on experience. Our virtual instructor-led training approach has all the advantages of traditional classroom training, but with added flexibility and convenience. Students will learn from a live subject matter expert in an interactive and immersive learning experience.

MIE is a certified Pearson VUE testing centre that offers students the opportunity to certify on a variety of international exams.

Performance 2020

MIE was relaunched in July 2019, with new premises, facilities and equipment and a strategy focused on securing external business, as opposed to only serving an internal support function. Revenue has grown by more than 300% and the company achieved a profit before tax yield of 7%.

During the COVID-19 lockdown period, MIE shifted its on-premises training delivery focus to VILT seamlessly, to support the mandatory work-from-home policies. Courses were transitioned to VILT during the week of 30 March 2020. We experienced minimal impact on planned training, as the majority of MIE's technical courses could be delivered virtually. Large volume projects such as learnership programmes were, however, adversely impacted as a result of social distancing measures.

Future prospects and forward planning

MIE is looking forward to building on the solid base that was laid in FY20 and will focus on growing the strong relationships with its premium vendors, Microsoft and Huawei. Large investments were made in training and lab equipment as well as state-of-the-art virtual delivery technology, and the business will reap the benefits from an impressive pipeline.

Newer technologies such as cloud computing, AI, IoT, machine learning, robotic process automation and new developments in cyber security have all been launched in the past several months. These previous "catch-phrases" are now becoming household names with an associated growth in training demand. Coupled with associated strategic directives and funding from the MICT SETA, the UIF and various government departments we foresee tremendous opportunity to upskill youth and UIF beneficiaries who lost their jobs and who would benefit greatly from being reskilled and prepared for the new world of work.

https://mecerintered.co.za

<Areas of expertise>

> Cloud computing
> Cybersecurity
> AI
> IoT
> ICT infrastructure
> ICT security
> Service management
> Open source
> RPA and machine learning

Product offering

<Learnerships, internships and skills programmes>

MICT SETA

> NQF Level 3: National Certificate: Information Technology: End-User Computing
> NQF Level 4: Further Education and Training Certificate: Information Technology: Technical Support
> NQF Level 5: National Certificate: Information Technology: Systems Support
> NQF Level 4: Further Education and Training Certificate: Information Technology: Systems Development
> NQF Level 5: National Certificate: Information Technology (Systems Development)

SERVICES SETA

> NQF Level 4: Further Education and Training Certificate: Generic Management
> NQF Level 5: National Certificate: Generic Management
> NQF Level 2: National Certificate: New Venture Creation (SMME)

EWSETA

> NQF Level 2: National Certificate: Hot Water System Installation
> NQF Level 5: National Certificate: Energy Regulation
> NQF Level 1: General Education and Training Certificate: General Technical Practice

QCTO

> NQF Level 4: Occupational Certificate: Hot Water System Installer (Solar Water Installer)
> NQF Level 5: Occupational Certificate: Solar Photovoltaic Service Technician

<International vendor certifications>

> Automation Anywhere
> CertNexus
> Cisco
> CompTIA
> DevOps
> Huawei
> ITIL
> Linux Professional Institute
> Management and Soft Skills
> Microsoft End-User
> Microsoft Technical
> Python

SIZWE AFRICA IT GROUP

Mustek owns 100% of Zatophase Proprietary Limited, an investment company that owns 40% of Sizwe.

MAJOR ACTIVITIES
Comprehensive ICT service solutions provider

MARKETS SERVED
Public and private sector clients

CORE BUSINESS VALUE
Cost saving and user productivity

FOCUS
Integrated ICT solutions

PRIMARY PRODUCTS
- Managed services
- Unified network solutions
- Fibre and facilities management.

BRANCHES
- Head office in Pretoria
- Regional offices in all nine provinces
- Technical points of presence across the country.

Sizwe branch locations

Who we are

SIZWE AFRICA IT GROUP IS AMONG SOUTH AFRICA'S LEADING INTEGRATED ICT SOLUTIONS PROVIDERS. DRIVEN BY PASSION AND SKILL, WE ARE A RAPIDLY EXPANDING, INNOVATIVE PARTNER OF CHOICE FOR MANY LEADING ORGANISATIONS. OUR HOLISTIC APPROACH ENSURES THAT OUR CLIENTS BENEFIT FROM THE VALUE WE CONTRIBUTE ACROSS THE ENTIRE ICT VALUE CHAIN.

Since our establishment in 1999 as Sizwe Business Networking, we have built an impressive track record by offering complete peace of mind to our clients. We provide the best solutions to the most demanding challenges and have demonstrated our technical knowledge and effective, resilient and reliable solutions.

Sizwe Africa IT Group is majority black-owned and a level 1 B-BBEE contributor.

Sizwe is committed to continuously supporting South Africa's transformation journey through various initiatives supporting the ICT Charter Code. This will drive inclusive economic growth and sustainable employment, particularly for women, youth and entrepreneurs.

We also partner with educational organisations to help bridge the technology gap and give rise to a new generation of tech-savvy South Africans.

Suite of offerings

<Managed services>

- 24/7 national call centre
- IT remote management
- End-user computing devices
- Managed print services
- Hosting
- Enterprise processing
- Security
- Server management
- Cloud and software-as-a-service (SAAS)
- Automated workforce management
- Rental solutions
- Maintenance and support of servers and end-user devices.

<Unified network solutions>

- Data communication
- Enterprise networking (routing/switching/wireless)
- Unified communications and collaboration (voice and video conferencing)
- Client contact centres
- Physical security (firewalls)
- Professional services (design, implementation, optimisation, maintenance, and support on UNS)
- IT management services (project management).

<Fibre and facilities management>

- Fire detection and suppression
- Network cabling
- Tower maintenance
- Facility management
- LAN (copper) reticulation
- Repair/maintenance of generators
- Heating, ventilation, air handling, cooling (HVAC)
- Civil infrastructure
- Backup and redundant power management (generators and UPS)
- Data centre design, implementation and maintenance
- Diesel replenishment
- Alternative energy
- Inside/outside plant optic fibre
- Access control.

SIZWE IT GROUP continued

The Sizwe approach

Sizwe Africa IT Group offers the full spectrum of IT services and solutions required by modern enterprises. These range from a dedicated solutions architecture division, physical networking and data centre services to desktop and cloud-based services.

Our services are provided directly or as part of a managed services contract, supported by a 24/7/365 call centre. Sizwe's managed services are custom built for each client through a five-step process:

1. Requirements specification
2. Planning and design
3. Operations and management
4. Implementation and integration
5. Optimisation

Financing

Ever-changing technological environments, converging technologies and increasing business demand for information availability are persuading companies to make costly acquisitions of systems and hardware. Outright purchases may require substantial capital outlay. On the other hand, standard finance lease and asset purchase facilities are recorded in balance sheets as financial debt, which potentially drains credit facilities that could be used more optimally for other purposes.

A viable option is the Sizwe Rental Solution, which can be positioned as an operating expense that allows predicted operating payments. Our Sizwe Rental Solution removes the inherent costs and risks associated with ownership from the equation. Traditional credit providers tend to focus on assessing and managing client credit risk, whereas the Sizwe Rental Solution is an authentic rental service that can manage a company's entire technology asset risk.

Three reasons for our success

A history of excellence

Sizwe grew from a small consumables operation to one of South Africa's leading ICT solutions providers to the public and private sectors. We are one of the select few companies listed as a direct acquisition company in the government IT supply channel.

A country-wide reach

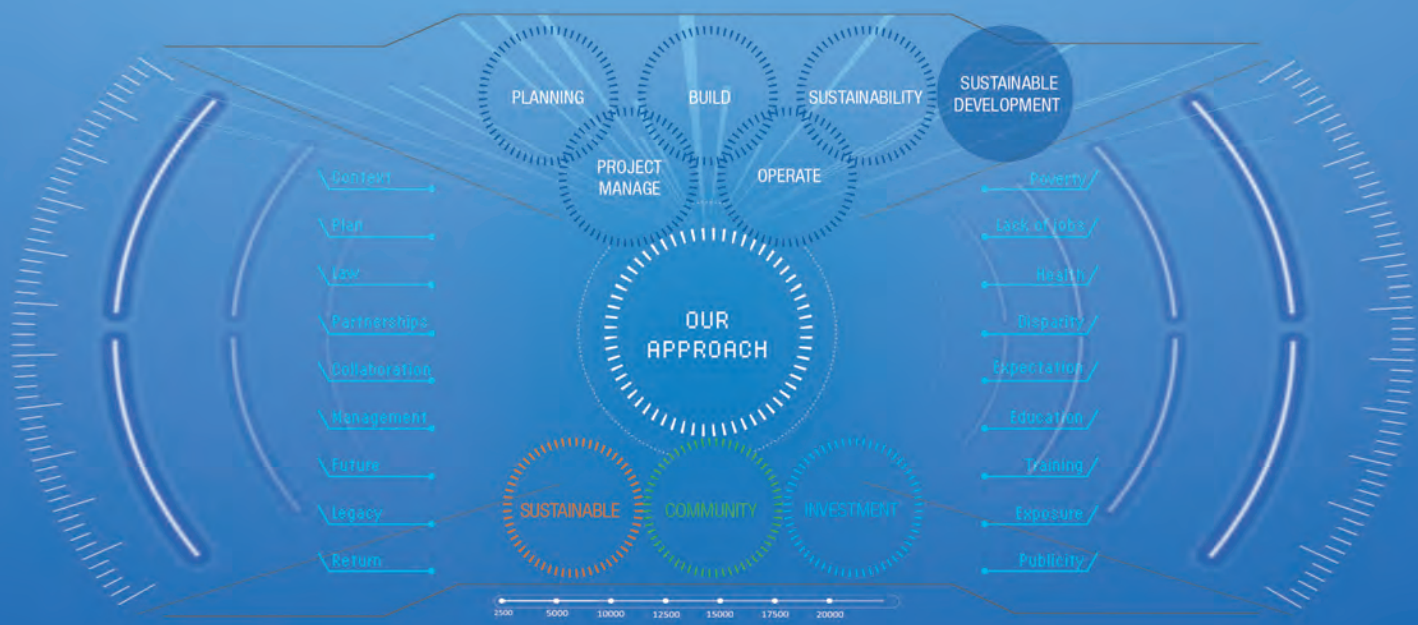
Sizwe expanded to include a network of SMMEs and associated businesses in each province. This robust and inclusive growth enabled Sizwe to take holistic ICT solutions to clients' doors across South Africa.

Sizwe's SMME support model ensures continuous support for big and small businesses alike. Our SMME development programmes, which focus particularly on women and youth-owned businesses, are targeted at preparing them for sub-contracted work.

A partnership-driven approach

Our close professional partnerships with multinational manufacturers, suppliers and sub-contractors allow us to maintain the highest quality standards in service delivery, based on a workforce trained in best practice processes. We gained in-depth expertise through strategic technology partners.

Sizwe's SCI approach



Socio-economic development

Sustainable community investment (SCI) is woven into the very fabric of what Sizwe is, what we do and what we stand for as a company. Our initiatives are aligned with our long-standing commitment to touch communities in ways that respond to tangible social needs.

Focus areas

Education

Education is the primary focus area of our SCI strategy. We consider ICT a powerful enabler for social and economic inclusion and for tackling the many challenges facing our communities. Addressing them requires a holistic, long-term view and systemic approach founded upon insights, commitment, and partnerships.

Our education-related SCI initiatives include the provision of:

- connectivity in urban and rural schools
- ICT infrastructure and hardware in adopted schools
- support and training for educators in e-learning technology.

Entrepreneurship

We support initiatives that develop women and youth entrepreneurs in ICT who are ready to exploit opportunities available in this fast-growing industry.

Through our partnership with People Upliftment Programme (POPUP), we aim to reduce unemployment and poverty and ultimately create resilient and self-sufficient communities. To raise digital literacy, we provide ICT specific and work-readiness programmes focused on skills development and entrepreneurship.

Environmental

Sizwe Africa IT Group is committed to reducing the current load on South Africa's energy grid and to drive the demand for alternative energy solutions. We deploy bespoke turnkey solar solutions for our clients.

Solar parking at Sizwe head office

Leading by example, Sizwe erected a grid-tied solar car park structure at head office to incorporate solar energy into our power consumption approach. As with any office environment, our highest electricity usage is from 08:00 to 17:00, fitting perfectly with solar production hours. We are advising clients of the proven cost benefits of these considerable electricity savings.

SIZWE IT GROUP continued

New generation data centre installed
Sizwe installed a Huawei FusionModule800 Smart Small Data Centre. This revolutionary data centre solution contributes simplicity, efficiency and reliability toward reducing power consumption and saving considerable space.

Innovation

Containerised solutions
Today's businesses want the flexibility to scale up or down, depending on their workload. The solar-powered solution offers a modular approach to expanding infrastructure and facilities, permitting organisations to scale their office space using containerised educational, facilities, or office and data centre solutions.

This innovative solution allows for mobility, pre-installed utilities and technology, quicker deployment, cost saving and convenience.

The benefits of a containerised office solution include:
- Quicker deployment than building additional space
- Less expensive than embarking on a building project
- More cost-effective than moving premises
- More convenient than moving to a bigger premise
- More customised solutions: Rent or buy, whichever works best for your balance sheet
- More flexibility: scale up or down as your business needs evolve.

Green Smart Solution
There is a great need for quality and equitable education for all South African learners, especially in the rural areas.

The Green Smart Solution offers mobile school infrastructure that will transform the learning experience, even in the most remote of areas. We collaborate with partners to provide e-learning software and data to learners.

The facility is flexible, scalable and fully self-sustainable.

The benefits of the Green Smart Solution include:
- Ease of scalability
- Return on investment (ROI)
- Deployment within weeks
- Secure, self-sufficient and off-the-grid solution
- Low total cost of ownership (TCO)
- Fully mobile units
- Capex or opex financing options.

Sizwe's certification and accreditation

Certifications	Partner certifications
• OHSAS 45001:2018 Occupational, Health and Safety Management • ISO/IEC 27001:2013 Information Security Management • ISO/IEC 20000-1:2018 Information Technology Service Management • ISO 14001:2015 Environmental Management • ISO 9001:2015 Quality Management • ISO 22301:2019 Business Continuity Management	• Cisco Gold Partner • HP Inc. Gold Partner • Aruba Silver Partner • Microsoft Gold and Silver Partner • Huawei Certified Service Partner • Hewlett Packard Enterprise Silver Partner

How COVID-19 has affected Sizwe Africa IT Group's operations

During levels 5 and 4 of national lockdown, Sizwe Africa IT Group operated as an essential service provider, providing ICT support and services to key clients that are identified as essential services. This meant that our engineers and technicians across the country were on standby from home to ensure that we continue to provide critical services to our clients serving the nation. One third of the workforce resumed work in our head and regional offices during level 3 of the lockdown, while some of our employees are set up and supported to work from home.

How COVID-19 has affected Sizwe Africa IT Group's performance

Globally there is an economic collapse due to the outbreak of COVID-19. As Sizwe Africa IT Group, we are not exempted from this. We are expecting both our public and private sector clients' expenditures to decrease in the next financial year.

Sizwe executive team

Vukile Mehana
Chief executive officer

Hanno van Dyk
Chief operating officer

Phillip Fourie
Executive: Fibre and facilities management

Itumeleng Mochocho
Executive: Unified network solutions

Albertus Stoop
Group HR and financial manager

Sibongile Radebe
Executive: Corporate development

Minderd Spoelstra
Executive: Strategy and partnerships

Joseph Matthysen
Executive: Managed services

KHAULEZA IT SOLUTIONS

Khauleza IT at a glance

MAJOR ACTIVITIES
Provider of ICT products and services

MARKETS SERVED
Public and private sectors

STANDARDS
ISO 9001:2015
ISO 27001:2013

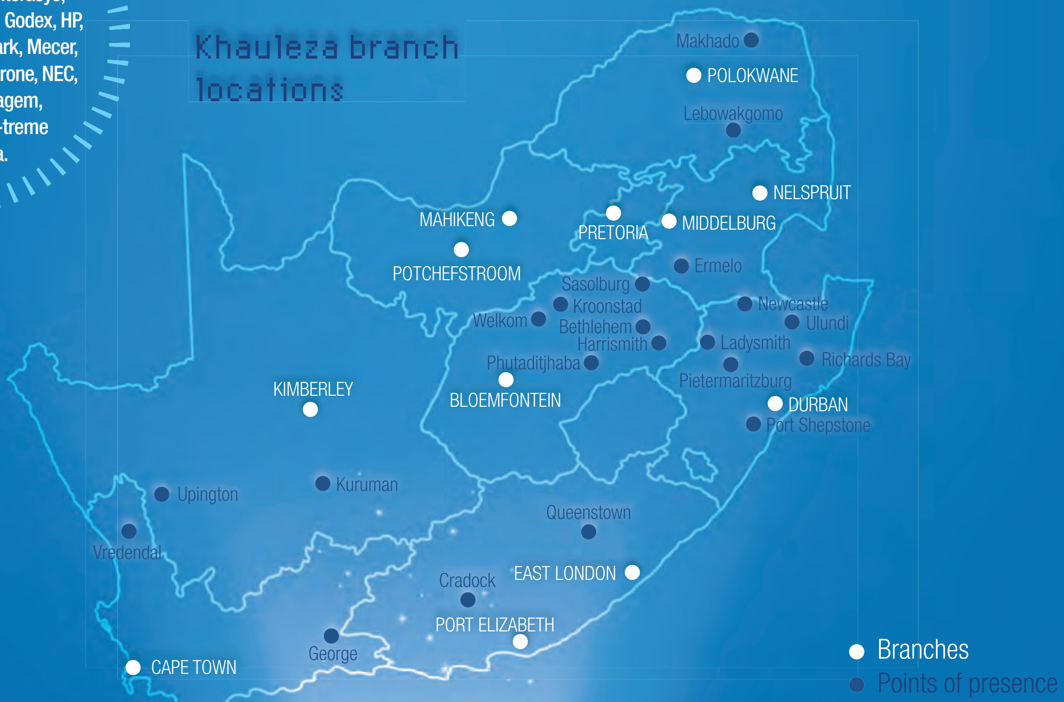
FOCUS
Providing ICT-related skills and services through a single interface

PRIMARY PRODUCTS
ICT services and alternative energy solutions

BRANCHES
Pretoria, Durban, Mahikeng, Cape Town, Bloemfontein, East London, Port Elizabeth, Kimberley, Nelspruit, Middelburg, Polokwane and Potchefstroom

PRIMARY BRANDS
3M, Acer, APC, Apple, Brother, Dell, D-Link, Eaton, Enterasys, Epson, Fujitsu, Futronic, Godex, HP, Juniper, Lenovo, Lexmark, Mecer, Microsoft, Molex and Krone, NEC, Posifex, Proline, Sagem, Symbol, Toshiba, X-treme Huawei, Zebra.

Khauleza branch locations



Who we are

KHAULEZA IT SOLUTIONS PROPRIETARY LIMITED IS A NATIONAL ICT SERVICE PROVIDER WITH A LEVEL 1 B-BBEE STATUS. OUR COMMITMENT TO B-BBEE, AS WELL AS OUR ENTERPRISE AND SUPPLIER DEVELOPMENT AND LEARNING ARE CORE FOCUS AREAS, FROM OUR 57.45% BLACK-OWNED SHAREHOLDING THROUGH TO OUR OPERATIONS, EMPLOYEES AND EXECUTIVE MANAGEMENT.

Khauleza boasts a proven track record of delivering a specialised suite of services to our loyal client base through annuity income contracts and ad hoc engagements.

Our skilled employees deliver services in all ICT disciplines and we partner with selected technology firms, vendors, and SMMEs to enhance our service offering.

132 employees

94 vehicles

9 logistics centres

1 repair centre

Multiple SMME partnerships

What we do

Khauleza's suite of services and products has been developed to provide the best alignment of our capabilities and our customers' needs. We continually improve and expand our service suite, while optimising current offerings.

<ICT distributed services>

- HELPDESK
- MAINTENANCE SERVICES
- IN-HOUSE REPAIRS
- DEPLOYMENT SERVICES
- IMACD AND END-USER EQUIPMENT
- PROCUREMENT
- SERVER SERVICES
- INFRASTRUCTURE SERVICES
- CABLING SERVICES
- WAN AND LAN DESIGN
- PRINT MANAGEMENT SERVICES

KHAULEZA IT SOLUTIONS continued

<Extended services and products>

- RENEWABLE ENERGY SERVICES
- ALTERNATIVE ENERGY, SOLAR POWER AND GRID-INTERACTIVE SERVICES
- ENERGY CONSULTING AND SITE ASSESSMENTS

<Social responsibility>

At Khauleza IT Solutions, we strive for good corporate citizenship and take our social responsibility seriously. During the year under review, we initiated two CSI initiatives.

The first was an NQF Level 5 learnership in Ga-Rankuwa, for 25 post-matric learners of whom 72% were female. This ran from March 2019 to April 2020. It included four months of theoretical training and eight months of practical work placements for the learners. Learners were provided with a monthly stipend.

We also provided sponsorship for the development of ICT infrastructure, printers and laptops to Soshanguve East Secondary School and Kgatoentle Secondary School.

Leadership team

Our management team have extensive experience in servicing public and private sector ICT needs:

Raymond Risk
Chief executive officer

Siyabonga Maclean
Executive director:
Strategy and finance

David Kan
Non-executive director

COVID-19

We implemented the following policies and procedures to help protect our employees and clients from COVID-19:

- Communicable diseases policy
- COVID-19 procedure document
- Building entrance registers for visitors and employees.

Employees are able to work from home as necessary. An employee contingency plan is in place to assist if employees are unable to work due to COVID-19.

We also put up COVID-19 awareness posters in all our regional offices. Safety measures outside of the office environment were communicated to all employees.

YANGTZE OPTICS AFRICA CABLE

YOAC at a glance

YOA CABLE
Yangtze Optics Africa Cable Proprietary Limited
长飞光纤非洲光缆有限公司

MAJOR ACTIVITIES
Optical fibre cable manufacturer

MARKETS SERVED
South African ICT and broadband market

STANDARDS
IEC-60793 and IEC-60974; ITU-T G651, G652, G655, G657; ISO 9001: 2015

FOCUS
New-generation optical fibre cable for fibre-to-the-x deployment

PRIMARY PRODUCTS
Optical fibre and cable products

BRANCHES
KwaZulu-Natal

What we do

YOAC manufactures a range of new, innovative optical fibre cable products for the South African ICT market, with an envisaged manufacturing capacity of more than one million kilometres of optical fibre annually.

YOAC plays a significant role in enabling a future of affordable broadband access for all in South Africa.

YOAC also supplies associated hardware and connectivity products to enable an end-to-end solution for private FTTH network operators and the distribution market.

Performance

Considering the impact of COVID-19 on global and local economies, YOAC's operational result for 2020 showed a marginal underperformance in sales revenue compared to the budget. The depreciation of the Rand to major currencies resulted in a forex loss for the company. However, YOAC implemented measures to curb forex losses in case of further depreciation of the Rand compared to the levels experienced in 2020.

With the advent of the national lockdown during the last week in March, YOAC focused heavily on expenditure consolidation and reduction of operational cost. General administration and sales costs were 22% below budget, but production costs exceeded the budget by 29%. This was due to a shift to lower-value FTTH cable products during the various stages of lockdown in South Africa, due to a decline in construction and a focus on FTTH connectivity.

YOAC's outlook for the next six months is cautiously optimistic as the lockdown eases and economic activity improves. We are encouraged by a significant increase in infrastructure build activity by fibre network owners.

YOAC achieved a B-BBEE level 3 status in 2020, down from the level 2 B-BBEE achieved in 2019. This is mainly due to a decrease in training spend during 2020 after lockdown was announced.

Employment and skills development

YOAC employs 78 people from our surrounding communities of Inanda, KwaDabeka, KwaMashu, Phoenix, Ottawa and Waterloo. More than a quarter of our staff are female. YOAC is committed to empowering women and people from previously disadvantaged backgrounds.

YOAC employees continue to benefit from the company's skills development and skills transfer programmes, with various international experts regularly visiting the YOAC plant and providing training and mentorship.

Corporate social responsibility

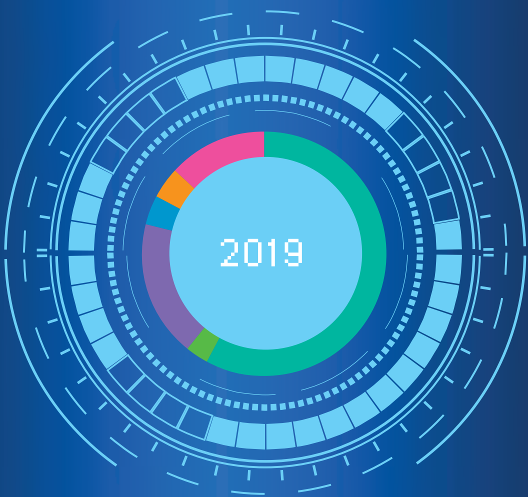
The company's CSR programmes focus on education. In 2020, YOAC sponsored back-to-school stationery for 28 children from the community.

Future prospects and forward planning

YOAC is well positioned to increase its market share further in the supply and manufacture of optical fibre cable products in southern Africa. YOAC enjoys a healthy and balanced customer base through direct sales and distributor sales channels to most of fibre network owners in South Africa. YOAC's new cable product innovations continue to give us an edge over our competitors. We continue investing in new products and solutions to drive new sales and partnership opportunities.

Value created

Employees – including employee tax	60%
Providers of capital	3%
Providers of debt	16%
Government – direct taxes	4%
Depreciation and amortisation	7%
Reinvested in the Group	10%



Employees – including employee tax	58%
Providers of capital	3%
Providers of debt	18%
Government – direct taxes	4%
Depreciation and amortisation	4%
Reinvested in the Group	13%

OUR SIX CAPITALS

1. Financial capital
2. Manufactured capital
3. Human capital
4. Social and relationship capital
5. Natural capital
6. Intellectual capital

For the purpose of integrated reporting, the factors that flow through Mustek for it to create value are divided into six capitals: financial, manufactured, intellectual, human, social and relationship and natural capital. These capitals underlie much of the disclosure in this integrated annual report.

In the following sections we use the IIRC's <IR> Framework capitals to anchor our disclosure and demonstrate the integration of strategy and sustainable development issues, how we manage each capital and its material aspects, and how we have performed.

1 Financial capital

Financial capital is the pool of funds that is:

- available to Mustek to produce goods or provide services
- obtained through financing, such as debt, equity or grants, or generated through operations or investments.

Profitability and cash flow are the two most visible indicators of Mustek's financial performance.

Highlights

Net asset value per share

1 598.08 cents

(2019: 1 494.21 cents)

Revenue

R6.40 billion

(2019: R5.85 billion)

Net cash from operations

R499.98 million

(2019: R16.29 million used)

Banking facilities

R2 611.9 million,

with 46.5% utilised at 30 June 2020

(2019: R2 307.2 million, 58.1% utilised at 30 June 2019)

What it is

- Access to funding and credit is a critical element of the Group's business model. Financial capital is fundamental to Mustek being able to grow and create wealth, and procure, assemble, warehouse and distribute products and services
- The bulk of the Group's financial capital is applied to its inventory holdings, customer credit, and fixed assets
- Mustek invests financial capital in cash reserves to meet day-to-day operating expenses, financial liabilities (as and when these fall due), and as a contingency for unexpected events
- The providers of financial capital include the Group's shareholders, bankers and suppliers.

How we manage and allocate it

Managing and allocating financial capital is a priority for Group governance, the Board and management.

Financial capital management includes:

- budgetary controls and monthly management accounts
- delegation of authority from the Board to management, departments and individuals
- access and authority controls embedded in accounting and operating software
- compliance with banking covenants
- working capital controls, including stock, debtors (credit limits) and creditors management
- cash flow and liquidity management
- exchange rate risk management
- internal and external audits.

The executive management is responsible for allocating financial capital, in terms of various parameters and decisions such as:

- Board-approved budgets
- macroeconomic outlook, both locally and internationally
- sales forecasts
- product availability and costs, including shipping
- market penetration and revenue growth targets
- the current and anticipated availability of credit
- physical warehousing capacity and current inventory levels
- ruling and anticipated exchange rates
- credit exposure
- ability to comply with banking covenants
- introduction of new products
- targeted customer service levels.

Foreign exchange risk management

The bulk of Mustek's inventory is imported from other countries, with purchases predominantly in US Dollar (USD). Significant and/or abrupt changes in the value of the Rand against the USD can impact the Group's financial results in various ways.

The Group uses a combination of forward exchange contracts and option structures to manage its foreign currency exposure. This approach, although costly, provides greater predictability to the Group's earnings.

Working capital management

The Group's business is working capital intensive. Accounts receivable and inventories are both financed. The Group relies largely on revolving credit and vendor financing for its working capital needs.

Inventory control is a central element of the Group's day-to-day activities. Mustek's inventory management system provides it with a variety of indicators relating to inventory ageing and stock turnover. Also critical to

OUR SIX CAPITALS CONTINUED

Financial capital continued

inventory management is the procurement process, which is based on extensive research of ICT trends, both internationally and in South Africa. The focus on procurement minimises the risk of obsolete inventory.

The Group's trade receivables are ceded as security against a revolving credit facility. The pricing of this facility is intended to reduce the Group's overall cost of funding. The Group has no significant concentration of credit risk, as our exposure is spread over a large number of counterparties and customers.

Mustek performs ongoing credit valuations of the financial condition of customers and, where appropriate, credit insurance is purchased for 85% of the value of individual trade receivables, subject to an insurance deductible.

Monitoring and reporting on the quality of the trade receivables book are activities demanded by both the third-party insurer and the provider of funding. Details of the Group's trade receivables can be found in note 13 of the annual financial statements.

Performance

Profitability

- The Group delivered a highly commendable performance against a background of low economic growth, limited trading during level 5 lockdown in April 2020, a R12.5 million increase in its inventory obsolescence allowance, a R30.5 million increase in its expected credit loss allowance and R3.8 million spent on COVID-19-related expenses.
- The Group's revenue increased by 9.4% to R6.40 billion (2019: R5.85 billion) despite South Africa's level 5 lockdown in April 2020 during which the Group could only supply to essential services.
- The gross profit percentage increased to 14.2% (2019: 14.0%) predominantly as a result of the weaker ZAR/USD exchange rate which resulted in higher selling prices.
- The ZAR/USD exchange rate was extremely volatile during the year and foreign currency losses of R56.8 million (2019: R19.9 million) was incurred.
- Distribution, administrative and other operating expenses increased by 4.7% and include R3.8 million that was spent on COVID-19-related expenses.
- Net finance charges decreased from R104.3 million to R100.9 million predominantly as a result of lower interest rates towards the end of the financial year. The adoption of IFRS 16 resulted in additional finance charges of R4.0 million being recognised.
- The contribution from associates decreased slightly. The contribution from YOA, an associate company that manufactures fibre optic cable, was negatively impacted by foreign currency losses incurred due to the depreciation of the ZAR/USD and ZAR/CNY exchange rates. Most of their raw material is sourced from its parent company, YOFC, who invoiced them in either USD or CNY. Excluding the foreign exchange losses, YOA traded profitably.
- Rectron's contribution was down from the comparative period and included an increase in their expected credit loss allowance of R10.2 million due to an increase in the percentages used in calculating the Group's expected credit losses, very limited trading during the level 5 lockdown in April 2020 and R1.9 million spent on COVID-19-related expenses. The Group remains positive on their prospects after they added HP Printers, Zebra and DJI Enterprise to their range of products during the second half of their financial year.
- As a result, Mustek's headline earnings per share are 8.7% lower at 127.13 cents (2019: 139.32 cents) and basic earnings per share are 16.1% lower at 124.05 cents (2019: 147.90 cents). In the comparative period, basic earnings included a non-headline profit of R6.3 million on the sale of vacant land in Midrand.
- The measure adopted by the company, in determining the JSE trading statement requirement, is applied on basic earnings per share and headline earnings per share.

Return on equity

- 8.0% (2019: 10.3%).

Inventory

- Group inventory days (excluding inventories in transit): 92.8 days (2019: 94.1 days)
- At year-end, R91.4 million (2019: R89.1 million) of inventory was carried below its cost at net realisable value. This represents 6.5% (2019: 6.9%) of the Group's total inventory
- Current ratio: 1.3 times (2019: 1.3 times).

Group trade receivable days

- 55.0 days (2019: 51.0 days).

More information regarding the Group's operational and geographical segment performance can be found in note 1 to the annual financial statements.

Looking ahead

- The finance function will continue to focus on the matrix of products and vendors' contribution to both revenue and gross profit
- Supply chain management, especially foreign exchange exposure and the matching of working capital terms, will continue
- Opportunities for efficiencies and synergies within the Group to control cost increases will continue to be investigated
- The implementation of a ERP system at both Mustek and Rectron will create opportunities to improve synergies between the two operations and will receive considerable attention in the 2021 financial year.

Manufactured capital

Manufactured capital consists of the constructed physical objects (as distinct from natural ones) that are available to Mustek for use in the production of goods or the provision of services, including:

- buildings
- equipment
- infrastructure.

OUR SIX CAPITALS CONTINUED

Manufactured capital continued

Included in Mustek's manufactured capital are:
- assembled and purchased inventory
- owned and leased offices and branch facilities
- warehousing
- logistics fleet (both owned and outsourced).

Highlights

Units assembled
63 727
(2019: 72 707 units)

Items sold
6.3 million
(2019: 5.5 million)

Complaints logged
134
(2019: 125)

ISO 9001 certification verified by BSI
92.8 inventory days
(2019: 94.1 days)

The Mecer semi-automated assembly plant with a daily capacity of 1 000 units is the largest in South Africa. It has the flexibility to assemble, asset tag, and image customised orders according to customer needs without delaying production.

Rectron's automated warehouse is rated among the most efficient in South Africa. The line has a configuration management database (CMDB) which records all date and time stamps based on the unit's serial number. It also details the picker, builder, tester and packer.

Assets and products

The Group's financial capital is invested in a combination of manufactured capital and financial assets (accounts receivable and cash). The single largest investment in manufactured assets, and indeed in all assets, is represented by the inventories of finished goods and goods in transit.

As at 30 June, the Group's inventory amounted to R1.396 billion (2019: R1.296 billion). Mustek's local stockholding policy is a competitive differentiator for ordering and delivering stock to customers and in processing warranties, returns and replacements of faulty technology. By maintaining healthy inventory levels at each regional head office, Mustek ensures that warranties, returns and replacements of faulty technology are dealt with quickly and efficiently.

Most of the Group's manufactured capital of offices, warehouses, branches, plant, equipment, and motor vehicles are situated within South Africa, with the Midrand head offices of Rectron making up the bulk of the Group's net investment in property, plant and equipment.

The governance and management of the Group's physical assets is like that of its financial capital.

Mustek applies its knowledge and understanding of ICT trends to a formal procurement process to ensure that the correct products, in the right quantities, are procured at the right time, thereby mitigating the risk of obsolescence. Important aspects of this process are logistical planning, bulk buying and consolidation of shipments. Product managers focus on selling slow-moving or older inventory items before the demand for the product lines decline significantly.

Mustek and Rectron delivery and logistics teams value their distributor, reseller and customer relationships and track inventory through their integrated reseller inventory software. They add value by remitting orders along with delivery notes to customers, thus simplifying the work of the reseller.

The Group uses both its in-house vehicle fleet and an outsourced courier service to maximise customer service and fleet utilisation while minimising costs.

The Group's ability to customise products to meet customer demand means that much of its stock is procured on a back-to-back basis for a specific customer order.

Mustek's R&D department performs a critical role in managing the risks inherent in the assembly of a diverse range of components. The department ensures the compatibility of components and the evaluation of products prior to them being assembled.

Mustek achieved ISO 9001 certification in 2003. All its business processes are included in the scope of its quality management system (QMS) and technological standards. These include the import, sales, assembly, testing, distribution, installation and servicing of computer-related equipment.

Other aspects of the Group's asset management are:

- access control
- regular stock counts
- physical controls in terms of the Occupational Health and Safety Act, 1993
- asset insurance
- maintenance and review of the complaint register.

Supply chain

The Group's supply chain is extremely simple. It procures IT components and finished products from a diverse range of suppliers, internationally and locally. Components are sold by Rectron or assembled by Mustek into Mecer desktop PCs and laptops. The multinational brands are sold through resellers or directly to corporate clients. Mustek's assembly line is used to provide value-added services to corporate clients such as mass setup and image loading. We hold distribution rights and authorised service agent agreements with most of our brands.

Mustek's vendors are primarily international brands who report extensively on the sources of their components. We also conduct regular due diligence and quality checks on our own ICT component suppliers.

Looking ahead

For 2021 and beyond, Mustek's management and personnel are committed to providing computer-related equipment and services of the highest quality.

Both Mustek and Rectron pride themselves on their broad product ranges and ability to identify and procure developing technologies in a timely fashion to meet the ever-changing thirst for technology.

The Group's broad range of products (multinational brands and the Mecer brand) and its reseller base enable market share growth in an expanding market.

In addition to multinational ICT brands, the Group is diversifying into sectors such as cloud computing services, security surveillance equipment, Microsoft volume licensing and networking equipment.

International expansion into Africa is challenging at present due to inadequate infrastructure such as roads, electricity and networks. However, the Group is growing its export business into mainly South Africa's neighbouring countries.

The Group will continue to pursue solutions to enhance education and distance learning.

3 Human capital

Our people's competencies, capabilities and motivation, including their:

- alignment with and support for Mustek's governance and ethics
- ability to understand and implement Mustek's strategy
- drive to improve processes, goods and services through leadership and collaboration.

Our workforce

Mustek's permanent workforce

Headcount as at 30 June 2020

	Number of employees	% breakdown
Mustek Gauteng	437	68.07
Mustek Western Cape	80	12.46
Mustek KwaZulu-Natal	50	7.79
Mustek Eastern Cape	29	4.52
Mustek Free State	13	2.02
Mustek Mpumalanga	11	1.71
Mustek Limpopo	9	1.40
Mustek Northern Cape	7	1.09
Mustek North West	6	0.94
Total	642	100.00

South African national employee diversity statistics

	Total number	Race %	Female number	Female %	Male number	Male %
African	384	59.81	158	59.39	226	60.11
Coloured	81	12.62	33	12.41	48	12.76
Indian	53	8.26	13	4.89	40	10.64
Black sub-total	518	80.69	204	76.69	314	83.51
White	124	19.31	62	23.31	62	16.49
Total	642	100.00	266	100.00	376	100.00

In total, Mustek has 642 employees, including 25 foreign nationals.

Mustek's human capital philosophy

Management fosters a transparent and accessible relationship with its employees to support a harmonious working environment. The Group's mature and well-entrenched range of effective human resource policies and procedures is introduced to new employees during their induction. Mustek complies with the Labour Relations Act and all associated labour legislation, as amended, in the spirit of freedom of association.

No collective bargaining agreements are presently applicable to the Mustek or Rectron workforces.

We work continuously to align the Group's diversity with South Africa's economically active population (EAP), including racial and cultural demographics.

Mustek's core values embody respect, dignity and fair treatment. The Group adopts a zero-tolerance policy for any form of discrimination or unfair treatment.

Mustek conforms to all applicable health and safety legislation. Temporary staff do not qualify for membership of the pension fund or medical aid.

OUR SIX CAPITALS CONTINUED

Human capital continued

Overview

The Group's total investment in the training and development of employees during the 2020 financial year amounted to

R19.64 million

(2019: R19.81 million)

Mustek's training spend as at end June 2020 was

R13.65 million

(2019: R13.74 million)

Rectron's training spend as at end June 2020 was

R5.44 million

(2019: R6.07 million)

MIE's training spend as at end June 2020 was

R0.55 million

(2019: R nil)

Employee turnover for Mustek for the current year amounted to

6.48%

(2019: 9.15%)

Employee turnover for Rectron for the current year amounted to

11.21%

(2019: 13.64%)

Return to work and retention rates at Mustek after parental leave is

100%

Mustek's absenteeism rate was recorded as

1.35%

(2019: 1.5%), and Rectron's as 1.32% (2019: 1.46%) for 2020

The total number of recordable injuries reported, including medical treatment cases and lost time injuries (LTIs) was

50 injuries

Mustek 43 and Rectron seven

During FY20 Mustek lost

2 220.75

and Rectron

1 475

productivity/working days, mainly due to sick leave (2019: 2 353.5)

Mustek was involved in three CCMA cases during the year (2019: seven) and Rectron had zero CCMA cases (2019: one)

- one grievance about labour practices has been filed for Rectron
- no incidents of discrimination, or corrective actions were taken.

100%

of staff nationally were trained on cybersecurity, anti-corruption policies and procedures. We experienced no incidents of corruption

Career development – the Mustek way

Ongoing skills development and training are recognised as business imperatives and Mustek is committed to developing the industry leaders of the future from within our own ranks. Employee development aligns the Group with national directives by prioritising skills development for previously disadvantaged individuals.

Mustek's entire workforce receives annual performance and career development reviews, with a succession planning programme in place. These reviews inform the development of employees identified as having the potential to fill business leadership positions in time. Their capabilities and readiness are mapped against management positions that are or may become available.

Meeting the individual training needs of employees requires focused interventions and development. Specific training interventions are instrumental to constructing career paths and for succession planning. These create an environment that attracts new recruits and retains current employees.

Mustek is a fully accredited member of the Media, Information and Communications Technologies Sector Education and Training Authority (MICT SETA) and reclaims its full development levies every year. Mustek's training and development programmes are registered with MICT SETA and the Safety and Security (SAS) SETA, so that they can provide NQF accredited courses in these areas. These courses are also extended to external trainees.

The Mustek Training Centre (Mercer Inter-Ed) offers technical and business-related training to employees and external applicants. Training programmes include technical support, system support, end-user computing and soft skills training programmes. Technical employees are encouraged to obtain certifications in fields ranging across Microsoft engineering, A+, Server+, and Microsoft Certified IT Professional (MCITP).

Employees are matched with training programmes that will support their anticipated progression through the Group. Bursary options are also made available to employees wishing to better establish themselves within the business. Applications are considered on a case-by-case basis.

Internships are accommodated within the Group in conjunction with Microsoft. This combination provides the individual with both formal training and job experience.

Life skills training and wellness

Life skills training is a critical element of our overall development programme and contributes to the Group's financial performance through reducing risk by:

- reducing stress-related absenteeism
- retaining skills better, as fewer staff resign due to external financial pressures
- improving staff morale
- reducing the number of external financial deductions
- building a more focused, safer and productive workforce.

The Group implements a comprehensive HIV/Aids strategy and programme based on the core value that the human rights and dignity of any employee infected by the virus should, at all times and under all circumstances, be upheld. This approach also recognises the need to educate all employees regarding HIV/Aids to empower them to protect themselves and their loved ones from the disease.

Antiretroviral drugs are provided to HIV-positive staff as needed. Mustek continues to fund this programme in its entirety, with none of the costs passed on to employees.

COVID-19 occupational health and safety training was rolled out across the Group at all levels of employment. Employees were informed of all hazards pertaining to COVID-19, as well as the recommended precautionary measures. COVID-19 safety inductions were conducted at department level to limit a mass gathering of employees.

Health and safety

Mustek adheres to all applicable health and safety legislation and conducts its business according to the Group safety, health, environmental and quality (SHEQ) manual. The Group's focus on health and safety is driven by staff volunteers, elected by their peers onto various health and safety committees. These committees meet quarterly to assess company performance regarding health, safety and related issues.

Minor first aid incidents are recorded and reported by our first aiders to the safety, health and environmental (SHE) officer. Moderate to serious injuries are reported to Mustek's payroll function and to the Commissioner for Workmen's Compensation, who has the authority to award workmen's compensation.

Lost time injuries causing at least one lost day are reported to payroll and injuries resulting in three or more days lost from work are reported to the Commissioner for Workmen's Compensation.

OUR SIX CAPITALS CONTINUED

Human capital continued

Occupational injuries on duty are recorded as follows:

	Mustek			Rectron		
	2020	2019	2018	**2020**	2019	2018
First aid cases (FACs, ie injuries on duty leading to minor treatments, such as a plaster or a pain tablet)	**26**	19	28	**64**	72	98
Medical treatment cases (MTCs, ie injuries on duty leading to medical treatment, but no lost days)	**3**	3	1	**0**	0	2
LTIs, ie injuries on duty leading to at least one lost day)	**14**	10	12	**7**	3	1
Lost time injury frequency rate (LTIFR, ie number of LTIs per 200 000 person hours worked)	**2.62**	1.9	2.4	**0.036**	1.0	0.4
Total number of recordable injuries, including MTCs and LTIs	**43**	13	13	**7**	3	3

Rectron's human capital

Rectron manages its own human capital. In some instances, results are reported differently to Mustek. We are, however, moving towards adopting GRI and SDTI indicators into our reporting systems.

Rectron's permanent workforce

Headcount as at 30 June 2020

	Number of employees	% breakdown
Rectron Gauteng	**225**	65.79
Rectron Western Cape	**51**	14.91
Rectron KwaZulu-Natal	**34**	9.94
Rectron Eastern Cape	**19**	5.56
Rectron Free State	**13**	3.80
Total	**342**	100.00

South African national employee diversity statistics

	Total number	Race %	Female number	Female %	Male number	Male %
African	**194**	56.73	115	64.97	79	47.88
Coloured	**42**	12.28	17	9.60	25	15.15
Indian	**40**	11.70	18	10.17	22	13.33
Black sub-total	**276**	80.71	150	84.75	126	76.36
White	**66**	19.29	27	15.25	39	23.64
Total	**342**	100.00	177	100.00	165	100.00

In total, Rectron had 342 employees that included five foreign nationals.

Rectron’s human capital highlights

- Upskilling employees with relevant skills in each area of the business, in accordance with each employee’s personal development plan
- Completion of the customer service, technical and system support learnership programme, creating employment opportunities for learners
- Our wellness programme hosting various initiatives
- Launching our Basadi Women Empowerment programme to upskill and empower future female leaders
- Our diversity campaign continuing to contribute towards a diverse harmonious workplace
- Holding celebrations for all employees country-wide, celebrating their 10 and 20 years of service where applicable

Rectron human capital vision

Rectron’s HR and development programmes are important for keeping employees’ competencies aligned with the overall strategic plans and goals of the organisation. Employees are an asset to the company and we are committed to ensuring that Rectron is considered the best place to work. Under the various pillars of the human capital framework, we continued to drive and create a positive workforce by implementing the following measures.

Talent development

We supported the talent development of our employees through professional development, career development, and improved performance management. We invested in advanced development programmes that improved overall leadership capabilities, job skills, and employee productivity.

Employee wellness

We promoted the achievement of work-life balance and wellness. We used our employee wellness programme to create awareness on the potential benefits to employees of improved physical and mental health. Rectron aids, supports and funds a comprehensive HIV/Aids programme through Kaelo Xelus, our wellness service provider, ensuring that confidentiality is maintained, and employees receive the necessary benefits.

Diversity

We foster a diverse, inclusive employee community with a positive work environment by conducting regular organisational climate surveys; we use the information to collaborate with managers to make the necessary changes. We educate employees on the prevention of harassment and discrimination and consider productive ways to resolve conflict through our employment equity channel. We also ensure we promote our commitment to diversity and non-discrimination through our outreach programmes and employee recruitment efforts.

Skills development

Effective training is critical to Rectron’s success. Our key focus is to enable employees to deliver products and services that meet the ever-changing needs of our customers. To do this, employees must be competent in their work and capable of adapting to change brought about by advancement in processes and technology. Promoting a culture of “we serve” requires that employees be properly equipped to meet and exceed customer standards. Rectron’s training is also mapped to the skills development plans of each employee to close the skills gap for their job competencies.

4 Social and relationship capital

Engaging with people, groups and businesses to strengthen our network

Social and relationship capital includes:

- shared norms, and common values and behaviours
- key stakeholder relationships, based on interactions and trust developed over years
- intangibles associated with Mustek's brand and reputation
- our social licence to operate.

Mustek's stakeholders

Our stakeholders are people, groups or organisations with a direct interest in the Mustek Group that can affect, or be affected by, our operations, policies and procedures. Stakeholders are identified through operational interactions and by Mustek's governance structures.

The media

Regulatory agencies and government

Civil society
Local communities
Consumers

The investor community
Shareholders
Prospective investors
Asset managers
Bankers

Suppliers and vendors

Business partners
Customers
Resellers

OUR SIX CAPITALS CONTINUED

Social and relationship capital continued

Stakeholder engagement

Mustek encourages proactive and sincere stakeholder engagement as the foundation of preserving and building on our social and relationship capital and in conducting sustainable business.

Stakeholder engagement is based on inclusiveness, materiality and responsiveness. Mustek's financial director, Neels Coetzee, is the Group's stakeholder relations officer.

Stakeholder engagement is conducted in one of two ways:
- direct engagement through verbal, written or visual communication with stakeholder groupings
- indirect engagement in the form of compliance with regulations and standards.

Investors are directly engaged through regular presentations and roadshows. These include:
- operational visits
- communication through the Securities Exchange News Service (SENS)
- one-on-one communication with executive management and members of the Board
- the publication of interim and full-year financial results and our integrated annual report
- the provision of financial information demonstrating conformance with debt covenants.

Direct engagement with our employee stakeholder grouping is conducted through supervisory and disciplinary structures. Means of communication include:
- scheduled meetings
- briefings
- emails and posters
- standard policy and procedures documents
- one-on-one supervision and instruction
- performance discussions
- organisational climate surveys.

A key stakeholder grouping is our reseller base, which between Mustek and Rectron numbers more than 10 000 resellers. Constant feedback from our resellers is invaluable for remaining abreast with consumer trends and demands. Mustek and Rectron engage with our resellers through:
- customer surveys
- roadshows
- personal meetings
- incentive schemes
- digital email service
- web-based reseller portal.

Indirect engagement with a variety of stakeholders, in particular those in society and community groupings, is achieved by complying with regulations and guidelines.

Stakeholder issues

Key stakeholder issues raised through our engagement processes include:
- Profitability
- Good governance
- Job security
- Product quality, availability and after sales support (lifecycle management)
- Customer service
- Remuneration
- Financial stability
- Compliance with legislation and regulations
- Corporate citizenship – social investment and transformation
- Environmental impacts and "green products".

These issues have been responded to throughout the body of this report.

Transformation and maintaining our social licence to operate

Underlying Mustek's transformation objectives is its commitment to provide historically disadvantaged South Africans with training and development opportunities, empowering them to transform not only their own lives, but also those of their families and communities.

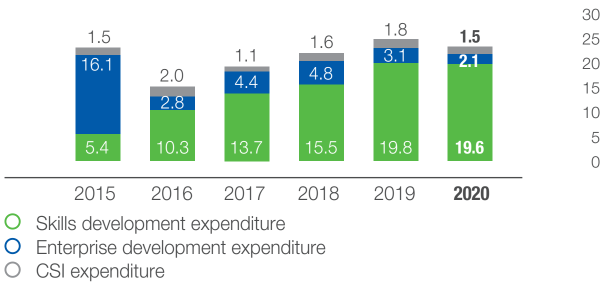
Mustek Limited Group achieved an overall level 2 B-BBEE contributor status. The consolidated Group scorecard includes, among other subsidiaries, Mustek and Rectron. The Mustek division achieved level 1 B-BBEE contributor status and Rectron received an improved level 2 B-BBEE rating.

Employment equity and workplace skills plans are submitted annually and Mustek is fully compliant with the Employment Equity Act, 55 of 1998 and the Skills Development Act, 97 of 1998.

During the 2020 financial year, the Group spent R22.24 million on staff training and skills development (2019: R19.81 million).

Group transformative expenditure

(R million)



Corporate social investment

Mustek Group's CSI programme is contributing to sustainable development through education, training, community development and support. The programme seeks to improve the quality of, and access to, education for previously disadvantaged communities. It also supports and facilitates the implementation of IT laboratories in selected schools.

In this reporting period, the Group spent approximately R1.56 million on CSI initiatives (2019: R1.78 million). Our CSI programme is directed at enabling people to gain access to opportunities in the mainstream economy.

Our contributions were allocated to:

- resources and grants to previously disadvantaged schools and organisations for people with disabilities
- skills programmes and bursaries
- grants for sector-specific projects
- pro bono professional services and HR support.

Procurement

Mustek procures goods and equipment that are not readily available in South Africa, mainly from overseas manufacturers. These imports are excluded from the Group's total procurement spend in terms of the B-BBEE ICT sector codes.

Mustek meets the definition of a level 1 B-BBEE contributor in terms of its preferential procurement. We aim to secure full B-BBEE certificate compliance for all suppliers including exempt micro enterprises (EMEs), qualifying small enterprises (QSEs), and black-owned and black women-owned enterprises. For the past three years, we have reached the 80% target for preferential procurement with BEE-compliant suppliers. In total, 114% (2019: 84.02%) of the total procurement spend is with empowering suppliers (ie with valid B-BBEE certificates). We were able to achieve 114% because of the multiplier factor as well as tightening measures to gather BEE certificates.

We procure significant input quantities from internationally recognised manufacturers in the Far East. Mustek does not deny the possibility that imports may be produced under unsatisfactory employment conditions; therefore, we only procure from accredited vendors. Vendor premises are inspected by Mustek personnel to monitor conditions under which their workers operate.

Protection of customer data

Our customers are self-registered with us through a website portal. Protecting customer-related data is of utmost importance to Mustek and we adhere to strict protection policies. In the year under review, no complaints related to breach of privacy and loss of customer data were reported.

Although Mustek deals primarily with resellers, we will assist consumers directly when so warranted. Customers are requested to back up their devices before repair as part of our terms and conditions.

Sensitive information, such as passwords and credit card details, is not stored. Customer information that is kept by us is stored on a secure SQL server with firewall protection and requires rigorous authentication for local network access. Databases are physically kept in a secure location on Mustek premises. We have not received any complaints regarding breaches of customer privacy or loss of customer data.

Rectron frequent buyer rewards

The Rectron Rewards incentive programme is proving highly successful in retaining reseller loyalty. Rectron Rewards enables resellers to seamlessly order online, check stock availability and review their account balances. Online product training is also available to them.

The Rectron Rewards programme is evolving into a key Rectron platform for growing small businesses and adding value to their upstream and downstream commercial transactions.

Mustek's awards

Due to COVID-19 many of the usual awards events have been postponed and no further formal announcements have been made.

5 Natural capital

The world's stock of natural resources, renewable and non-renewable, that support current and future prosperity of organisations

Relative environmental conditions that can affect an organisation's purpose include:

- climate
- air quality
- natural resource availability
- water quality
- biodiversity
- use of land
- existing contamination
- pandemics.

OVERVIEW

To achieve true sustainability, we need to balance economic, social and environmental sustainability factors in equal harmony. Sustaining the environment means that we are living within the means of our natural resources, consuming our natural resources at a sustainable rate without reducing the environment's capacity to allow all people to live well, now and in the future. Environmental sustainability is the critical foundation on which social and economic life depends.

What we use

- Mustek's biggest natural resource input is coal-based electricity sourced from Eskom
- Direct energy in the form of petrol and diesel is used to fuel vehicles and generators
- Solar energy contributes to running buildings and reduces Mustek's emissions and the overall cost of electricity, including the "demand charge" from municipal authorities
- Manufactured components for Mecer hardware
- Packaging material.

Highlights

- Rectron's Port Elizabeth energy goal is to be able to work "off-grid". The Photovoltaic (PV) plant has been optimised these past few months to enable the branch to do so
- The PV system at Mustek's Western Cape branch was fully online for this financial year. The branch's electricity consumption thus decreased, almost halving the branch's emissions contribution compared to the previous financial year.
- Emissions decreased for Mustek and Rectron by 2% and 1% respectively due to a reduction in vehicle fuel consumption.

Management approach

As we have seen these past few months, COVID-19 has a severe impact on human lives and economic activity, and it has shown us how dependent we are on the planet's delicate ecological balance.

As reported in *The Guardian*, "The cost of preventing further pandemics over the next decade by protecting wildlife and forests would equate to just 2% of the estimated financial damage caused by COVID-19." Investment in prevention may well be the best insurance policy for human health and the global economy in the future. We could stop future pandemics before they start.

Although Mustek cannot prevent destruction of the rainforests nor the trade in wild animals, Mustek can reduce its impact on the environment by managing its energy consumption and waste disposal in line with best practice.

Mustek has made environmental performance a strategic initiative and has utilised the systematic approach of ISO 14001 and ISO 50001 to improve environmental management and energy usage. Environmental goals are incorporated into routine operations, procedures and processes and are integrated into employee training.

Mustek's environmental management goals are to:

- comply with legislation and any compliance obligations
- protect the environment and prevent pollution, with emphasis on waste and energy management
- procure and utilise energy-efficient products and services.

Our internal processes ensure compliance with local, provincial and national environmental legal requirements. Our reporting includes electricity purchased from the municipality, PV energy generated and usage of fuel.

Our primary environmental impact is waste in the form of packaging materials, electronic waste from redundant components and office waste, such as paper. Service providers, also certified to ISO 14001, recycle Mustek's waste in a legally compliant manner.

Our carbon emissions are reduced by using PV systems that generate clean energy in the form of solar power and by implementing strategies to reduce the consumption of electricity. The integration of an EnMS, based on ISO 50001, into Mustek's existing environmental management system, has enabled a consistent approach to energy management and further reductions in energy consumption.

OUR SIX CAPITALS CONTINUED

Natural capital continued

Mustek's precautionary approach

The key element of a precautionary approach, from a business perspective, is to prevent rather than cure. Precaution involves the systematic application of risk assessment, management and communication.

Mustek's defensive approach is to maintain ISO 14001. A requirement of the standard is to identify whether there are any activities, products, or services that interact or can interact with the environment and whether any of these environmental aspects can cause an impact on the environment, beneficial or adverse.

Environmental key performance GRI indicators

- No incidents of non-compliance were reported with regulations and voluntary codes concerning the health and safety impacts of products and services during their lifecycle
- All products include labelling that indicates:
  - model number
  - input rating
  - output rating (if relevant)
  - a recycling statement included on all Mecer computer boxes
- There were no issues of non-compliance with regulations and voluntary codes concerning product and service information and labelling
- Mustek's objective is to reduce its emissions where possible; energy management improvement initiatives thus included:
  - the installation of timers to ensure airconditioners and lights are switched off at the end of the day;
  - a two-year project to replace all the LED lights with lights that have better energy consumption and produce higher LUX levels
  - replacement of old airconditioners with ones that have invertors which consume less power and produce a higher output
- Operational activities continued to increase at Mustek, except for the weeks during lockdown levels 5 and 4. With the Western Cape's PV system being online for the financial year and a reduction in vehicle fuel consumption, overall emissions decreased by 2%. (2020: 2 457 CO_2e), (2019: 2 518 CO_2e)
- Mustek is registered with the Department of Environmental Affairs (DEA) as a "producer", as required by the Waste Act, 59 of 2008 and Government Notice 1353
- Electronic waste is classified as hazardous in its waste form. It is thus collected and responsibly recycled, with 15 tonnes (2019: 33 tonnes) of e-waste recycled by Mustek and its bigger branches in this financial year
- Rectron recycled 8 tonnes of waste
- Rectron's vehicle fuel consumption reduced, resulting in a reduction of 15% over the previous financial year of non-renewable fuel (2020: 2 506 GJ), (2019: 2 941 GJ).

Energy consumption and greenhouse gas (GHG) emissions

Reducing Eskom electricity consumption lowers costs and raising Mustek's profile as a leading provider of renewable energy technology.

In 2011, the Mustek division set its first energy reduction target, which was reached mainly through the installation of thousands of LED lights and the solar panel project as discussed below. These installations have significantly reduced the Group's overall electricity footprint and demonstrate the viability of renewable energy for powering corporate infrastructure.

In 2013, Mustek invested R3.9 million on the installation of 924 solar PV panels on the roof of its Midrand head office and assembly line. The panels reduce the Midrand installation's electrical consumption and its peak demand by approximately 10%.

Based on the success of the Mustek initiative, in 2014 Rectron installed a similar array of solar panels to reduce its energy costs and GHG emissions. In 2018, Mustek added another PV system to its MST building and last year included a PV system in the building of its new Cape Town office.

Due to the reduction in electricity consumption by Mustek's Western Cape branch from the use of their PV plant and the overall reduction in company fuel usage compared to the previous year, overall emissions decreased by 2%.

Rectron has been optimising its Eastern Cape PV plant with the objective to go "off-grid". The Rectron Western Cape and Gauteng sites are earmarked for improvement for 2021. The improvement in PV generation was not realised this financial year but due to a decrease in fuel consumption, Rectron's emissions decreased by 1% compared to the previous year.

Emissions

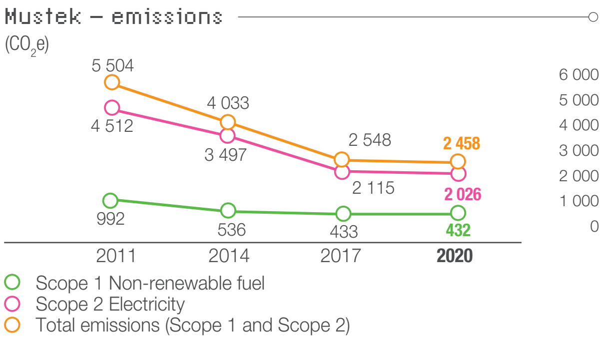
Mustek – emissions (tonnes CO_2e)		2016	2017	2018	2019	2020
Scope 1	Stationary fuels	9	8	10	27	**32***
	Company-owned vehicles	404	372	366	386	**323**
	Other fugitive emissions (non-Kyoto gases)	27	53	31	79	**77**
	Total non-renewable fuel	**440**	**433**	**407**	**492**	**432**
Scope 2	Electricity**	2 134	2 115	2 099	2 026	**2 026**
	Total emissions	**2 574**	**2 548**	**2 506**	**2 518**	**2 458**

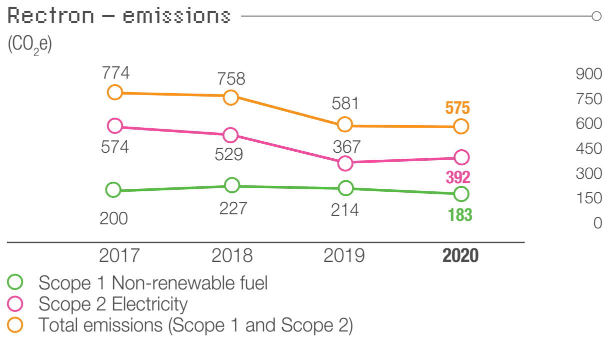
* *Use of diesel increased again due to loadshedding.*

** *Mustek uses internal meters to measure electricity consumption. These values are under review with City Power and Mustek is working to resolve this.*

Rectron – emissions (CO_2e)	2017	2018	2019	2020
Scope 1 Non-renewable fuel	200	227	214	**183**
Scope 2 Electricity*	574	529	367	**392**
Total emissions (Scope 1 and Scope 2)	774	756	581	**575**

* *Data for energy calculations was taken from City Power values for consistency. Rectron has installed a self-meter at its Gauteng branch and this data is under review with City Power.*





OUR SIX CAPITALS CONTINUED

Natural capital continued

Energy

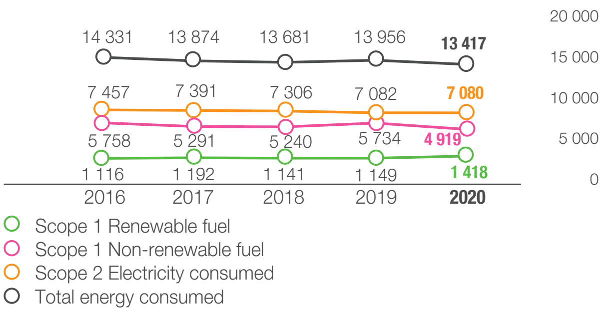
Mustek – energy consumption (GJ)

		2016	2017	2018	2019	2020
Scope 1	Stationary fuels	125	113	137	373	**435**
	Company-owned vehicles (P)	3 321	2 734	2 744	2 564	**2 057**
	Company-owned vehicles (D)	2 312	2 444	2 360	2 797	**2 427**
	Total non-renewable fuel	**5 758**	**5 291**	**5 240**	**5 734**	**4 919**
	Renewable fuel (solar)	1 116	1 192	1 141	1 140	**1 418**
Scope 2	Electricity (GJ)	7 457	7 391	7 306	7 082	**7 080**
	Total energy consumed	**14 331**	**13 874**	**13 687**	**13 956**	**13 417**

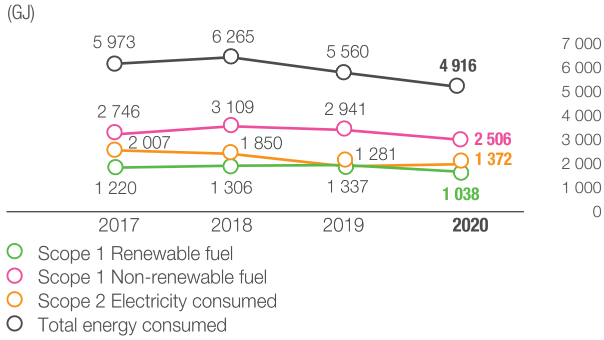
Rectron – energy consumption (GJ)

	2017	2018	2019	2020
Scope 1 Renewable fuel	1 220	1 306	1 337	**1 038**
Scope 1 Non-renewable fuel	2 746	3 109	2 941	**2 506**
Scope 2 Electricity consumed	2 007	1 850	1 281	**1 372**
Total energy consumed	**5 973**	**6 265**	**5 560**	**4 916**

Mustek – energy consumption
(GJ)



Rectron – energy consumption
(GJ)



Waste abatement and disposal

Waste management at Mustek is an environmental issue that receives considerable attention. Much of Mustek and Rectron's waste is packing materials, including wooden pallets, cardboard, plastic, polystyrene fillers and electronic waste.

Electronic waste is considered hazardous in its waste form and requires recycling or disposing of in a legally compliant manner. Mustek, therefore, utilises service providers that can demonstrate compliance and are ISO 14001 certified.

The lifecycle approach is addressed in the labelling of Mecer computer boxes informing customers of the need to suitably dispose of obsolete computer equipment to prevent landfilling of hazardous waste.

At Mustek's Gauteng site, a waste management company has an onsite team to separate waste into various streams, which are collected and sent for recycling, or disposed of at a permitted landfill site. The tonnage per stream is reported back to Mustek.

Waste also contributes to the Group's emissions, although it has a far more significant impact on landfill sites and wasted resources. The Scope 3 contribution of emissions from waste is, however, not included in the emissions values reported.

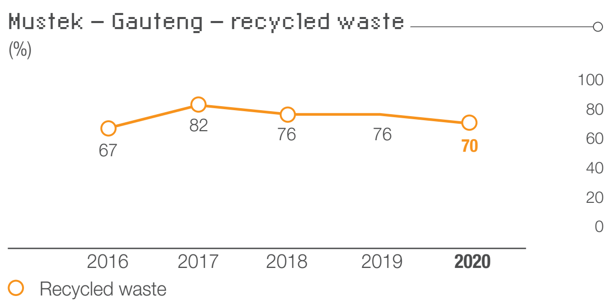
The amount of waste recycled by Mustek this year decreased by 16 tonnes, largely due to a decrease in e-waste needing to be recycled.

Due to the introduction of a new canteen at the Mustek Gauteng site, general waste increased from the rubble removed from the building improvement. Mustek Gauteng's waste recycled thus decreased to 70% (2019: 76%) of total waste.

Rectron recycled 8 tonnes of waste this year through waste-recycling initiatives.

Group waste

Mustek and Rectron – waste (tonnes)	2016	2017	2018	2019	2020
Mustek recycled waste (including branches)	129	206	149	150	**134**
Rectron recycled waste (Gauteng only)	13	11	11	11	**8**



6 Intellectual capital

Mustek's knowledge-based intangibles include:

- intellectual property, such as patents, copyrights, software, rights and licences
- organisational capital, including tacit knowledge, systems, procedures and protocols.

In this information age, intellectual capital can be the difference between an enterprise prospering or failing. The intellectual capital of a company includes its systems, R&D policies, procedures and controls, patents, and corporate culture. Intellectual capital dovetails with human capital through employee competence, skills, training and development (which includes knowledge of work procedures, work ethics and values), and experience.

The cumulative value of the intellectual capital that Mustek has refined over 32 years informs and drives our evolving business strategy. Building onto the other five capitals, it enables Mustek to remain sustainable and ahead of our competitors.

Mustek has become a truly all-round ICT solutions provider, able to offer any corporate, office or home ICT-related solution on any scale throughout South Africa.

Mustek's intellectual capital comprises:
- ICT industry insight
- competitive intelligence
- corporate culture
- understanding our customers and markets
- assembly lines and logistics management
- our human assets.

How we utilise it

The ICT industry is fiercely competitive and fast moving. Mustek's adaptability and understanding of the industry and consumer trends are critical to staying relevant in future while delivering to high standards in the present.

The Group's intellectual capital is refined by continually:
- responding to changing needs
- anticipating the needs of customers in the future
- offering comprehensive, high-value solutions
- partnering with the best providers of forward-thinking technology solutions and services
- acquiring product lines in emerging technologies
- assessing product and service gaps, as well as identifying adjacent opportunities
- improving operational efficiencies and cost management
- identifying and mitigating risks
- upskilling and motivating our workforce.

Mustek can react nimbly to any market demand and can gear the assembly line to reconfigure devices in line with current consumer trends. In a constantly changing IT landscape, this flexibility is vital to the Group's success.

Moving beyond brands into solutions

In its first two decades, Mustek focused largely on Mecer, our proprietary brand of PCs, notebooks, servers and peripherals. We later started complementing the Mecer brand with certain networking services and limited distribution of printers and consumables.

Understanding that the ICT industry was evolving beyond products and brands, in 2008 Mustek decided on a strategic pivot to reposition the Group as a broad-based distributor of premium-brand ICT products and solutions. This horizontal and vertical growth strategy aggregates brands, products and in-house ICT expertise into the end-to-end solutions that clients require. Unlike earlier years, there is no particular emphasis on hardware or software, as these are integrated into the solutions specifically required by clients.

It is our many years of experience as a complete ICT solutions provider that now gives us an edge in the market.

Green energy solutions

Mustek has added green energy solutions to the ICT stack as a natural extension of our UPS business. What started as an internal trial of solar power for our server room and conveyor belts has become a solid business for us.

Excellence through international standards and awards

Mustek's awards

2020
- Microsoft OEM Partner of the Year – Mecer
- Microsoft – Product Manager of the Year – Jane Nyati
- Lenovo DCG – Distributor of the Year
- Lenovo DCG – Champion – Trevor van Zyl.

2019
- Huawei Enterprise – Mustek Distributor of the Year
- Epson – Mustek Distributor of the Year for Enterprise Printers and Enterprise Projectors
- Toshiba Storage – Distributor of the Year for Toshiba HDD.

Mustek's certifications
- ISO 9001:2015 (quality)
- ISO 14001:2015 (environment)

All of Mustek's business processes are included in the scope of its QMS, including the import, sales, assembly, testing, distribution, installation and servicing of computer-related equipment and technological standards.

OUR TEAM LEADERSHIP

A diverse and effective leadership team

David Kan (61)
Chief executive officer

David Kan is the co-founder and a major shareholder of Mustek, as well as its CEO since the Group's inception in 1987. He holds a BSc (Eng), with a major in mechanical engineering.

Hein Englebrecht (51)
Managing director

Hein Engelbrecht holds a BCom (Hons), is a registered chartered accountant and joined the Group in 1997 as Group financial manager. He completed his articles with Grant Thornton Kessel Feinstein and spent two-and-a-half years as financial manager of Office Directions Proprietary Limited. He was appointed to the Board on 1 September 2000.

Neels Coetzee (45)
Financial director

Neels Coetzee holds a BCom (Hons), is a registered chartered accountant and joined the Group in 2001 as Group financial manager after completing his articles with Deloitte & Touche in 2000. He was appointed to the Board as financial director on 29 August 2008.

Dr Mdu Gama (51)
Lead independent non-executive director

Dr Mdu Gama was appointed as a director of Mustek in 2002. He holds an MBA, a PhD (Finance) and various management qualifications from SA, US and UK universities. He is currently the CEO of Resultant Finance Proprietary Limited and a trustee of the University of Johannesburg Trust Fund.

Lindani Dhlamini (47)
Independent non-executive director

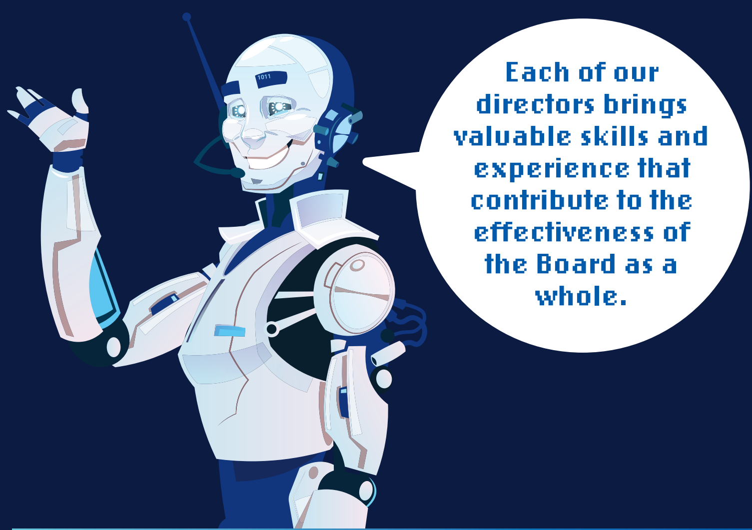
Ms Lindani Dhlamini joined Mustek Limited as independent non-executive director on 4 December 2015. She is a chartered accountant with over 20 years' experience. She is the co-founder and the chief executive officer of SekelaXabiso, as well as the chairperson of SkX Financial Services. In the past, she has served on various boards such as the Industrial Development Corporation of SA, Old Mutual Investment Group SA, Old Mutual MS Life, and Old Mutual Health. In previous years, she also served as a trustee of the South African Catering and Allied Workers' Union Provident Fund while it was under curatorship in 2007 and served on the board of the Nuclear Energy Corporation from 2002 to 2004.

Rev Dr Vukile Mehana (67)
Non-executive chairman

Rev Dr Mehana is the CEO of the Sizwe Africa IT Group and is also the chairman of LRMG Performance Agency, Mazwe Financial Services, and Community Schemes Ombud Services. He serves as a non-executive director of Sekunjalo Investments Limited and Makana Investment Corporation. His other roles include the Chaplain General of the African National Congress, and adjunct professor at the University of Cape Town Graduate School of Business. Rev Dr Mehana holds a BTh from Rhodes University, AMP from INSEAD Business School (France), Top Management Programme Certificate on Public Enterprises from the National University of Singapore, MBA from De Montfort University (UK) and DPhil from the University of Johannesburg.

Ralph Patmore (68)
Independent non-executive director

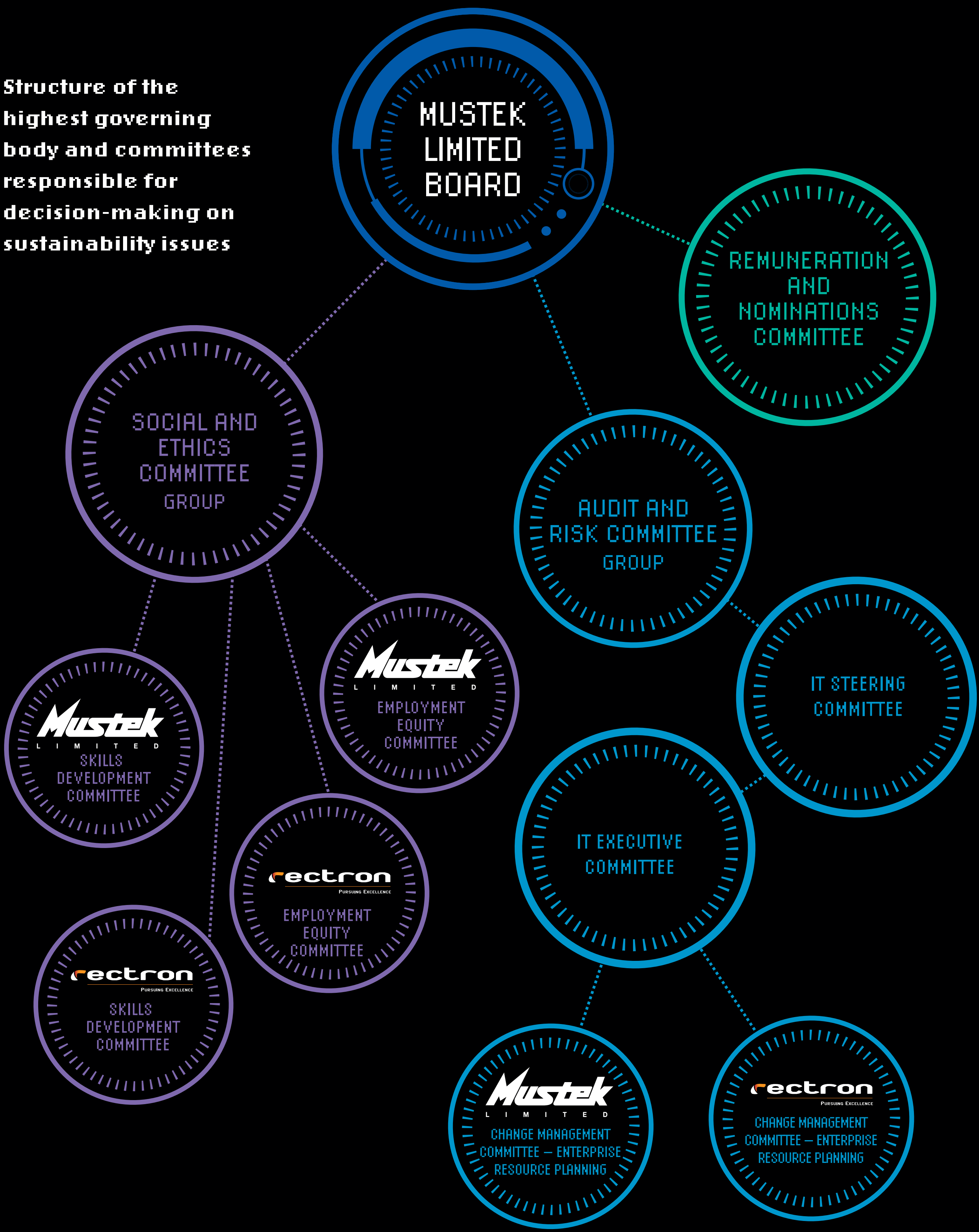
Ralph Patmore was appointed to the Board on 16 October 2009. He holds a BCom and an MBL from Unisa's School of Business Leadership. He was the chief executive officer of Iliad Africa Limited from its inception in 1998 until his retirement in September 2008. He is also a non-executive director of Unicorn Capital Partners Limited, Calgro M3 Holdings Limited, and ARB Holdings Limited.



CORPORATE GOVERNANCE REPORT

Governance reporting structure

Structure of the highest governing body and committees responsible for decision-making on sustainability issues



BOARD OF DIRECTORS

Vukile Mehana	67	Black male	Non-executive board chairman
Ralph Patmore	68	White male	Independent non-executive director
Mdu Gama	51	Black male	Lead independent, non-executive director
Neels Coetzee	45	White male	Financial director
Lindani Dhlamini	47	Black female	Independent non-executive director
David Kan	61	Coloured male	Chief executive officer
Hein Engelbrecht	51	White male	Managing director

SOCIAL AND ETHICS COMMITTEE

Mdu Gama	51	Black male	Chairman
Spencer Chen	44	Coloured male	
Ralph Patmore	68	White male	

Standing invitees: CEO, Mustek MD, Mustek FD, HR executive, Rectron FD and company secretary

IT STEERING COMMITTEE

David Kan	61	Coloured male	Chairman
Olga-Lee Levey	48	White female	Chief information officer
Dimitri Tserpes	55	White male	Chief technical officer
Spencer Chen	44	Coloured male	Rectron managing director
Hein Engelbrecht	51	White male	Mustek managing director
Neels Coetzee	45	White male	Group financial director
Alan Michas	68	White male	Rectron Group IT manager
Christiaan Engelbrecht	39	White male	Rectron Group Financial director

AUDIT AND RISK COMMITTEE

Lindani Dhlamini	47	Black female	Chairman
Ralph Patmore	68	White male	
Mdu Gama	51	Black male	

Standing invitees: CEO, MD, FD, internal auditor, external auditor and company secretary

MD = managing director
FD = financial director

REMUNERATION AND NOMINATIONS COMMITTEE

Ralph Patmore	68	White male	Chairman
Mdu Gama	51	Black male	
Vukile Mehana	67	Black male	

Standing invitees: CEO, MD, FD, HR executive and company secretary

CORPORATE GOVERNANCE REPORT continued

Custodians of governance

The Board accepts its responsibility as the custodian of corporate governance within the Group and is therefore accountable to stakeholders for the provision of value-enabling governance. The Board is constituted in terms of the company's memorandum of incorporation and in line with King IV. The majority of the Board members are independent non-executive directors who bring diversity to Board deliberations and create value by constructively challenging management.

A clear division of responsibilities between the directors is maintained to ensure that no single director has unfettered decision-making powers. A delegation of authority framework is in place and reviewed regularly to ensure the necessary authority is delegated to management to implement and execute the strategy. The Board is satisfied that the delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibilities.

The Board is the highest decision-making body in the Group. It approves the Group's strategy and ensures that it is aligned with the Group's values. The Board assumes collective responsibility for steering and monitoring strategy implementation and performance targets as well as any risks involved in the implementation of the strategy. It is collectively responsible for the Group's long-term success. The Board is accountable to shareholders and strives to balance the interests of the Group and those of its various stakeholders. All directors are continuously taking steps to ensure that they have sufficient working knowledge of the Group and industry within the triple context in which it operates. Directors are required to ensure continued development of their competencies to lead effectively and act with due care, skill and diligence and take reasonable diligent steps to become informed about matters for decision-making.

The directors have access to the advice and services of the company secretary. They are entitled, at the company's expense, to seek independent professional advice about the affairs of the company regarding the execution of their duties as directors.

Board composition

During the reporting period, the Board composition remained the same as for the previous year.

The Board met five times during the 2020 financial year, one being a special meeting, and the attendance is below:

	Name Qualification	Classification	Board attendance	Committee membership ARC	RNC	SEC	EE	SD	IT
Non-executive director	Vukile Mehana *BTh, AMP, Top Management Programme Certificate on Public Enterprise, MBA*	Non-executive Board chairman	4/5		✓				
Independent non-executive directors	Lindani Dhlamini *BSc, CA(SA), MBA*	Independent non-executive director	5/5	✓*					
	Mdu Gama *BCom (Acc), MBA, PhD (Finance)*	Lead independent non-executive director	5/5	✓	✓	✓*	✓*	✓*	
	Ralph Patmore *BCom, MBL, Stanford Executive Programme*	Independent non-executive director	5/5	✓	✓*	✓			
Executive directors	David Kan *BSc (Eng)*	Chief executive officer	5/5						✓*
	Hein Engelbrecht *BCom (Hons), CA(SA)*	Managing director	5/5				✓	✓	✓
	Neels Coetzee *BCom (Hons), CA(SA)*	Financial director	5/5						✓

** Chairman*
ARC – Audit and Risk Committee
RNC – Remuneration and Nominations Committee
SEC – Social and Ethics Committee
EE – Employment Equity Committee
SD – Skills Development Committee
IT – IT Steering Committee

Appointment, rotation and re-election of directors

The Board has a formal and transparent policy regarding the appointment of directors to the Board. While the appointments are a matter for the Board, the authority to oversee the nomination and to carry out the interview process have been delegated to the Remuneration and Nominations Committee.

Apart from a candidate's experience, knowledge, skills, availability and likely fit, the committee also considers a candidate's integrity, as well as other directorships and commitments to ensure that the candidate will have sufficient time to discharge his/her role properly. The Remuneration and Nominations Committee also considers race and gender diversity in its assessment in line with its race and gender diversity policy. The committee reviewed and adopted the same targets of 50% of the Board to be black and 30% being female. These targets will be taken into consideration when new appointments are being made.

New appointees are appropriately familiarised with the Group's business through an induction programme. The composition of the Board is reviewed on a regular basis to ensure ongoing compliance with the requirements set out in the Companies Act, 71 of 2008 as amended (the Companies Act) and King IV.

In accordance with the company's memorandum of incorporation, a director, having been appointed by the Board since the last annual general meeting of the company, is obliged to retire and being eligible, offers him/herself for election at the next annual general meeting. No new appointments were made during the reporting period.

In line with the memorandum of incorporation, one third of the directors are required to retire, and if available and eligible, stand for re-election at the company's annual general meeting. Those directors who have been in office for the longest, as calculated from the last re-election or appointment date, are required to stand for re-election. At the annual general meeting in 2020, Vukile Mehana, Mdu Gama and David Kan will retire and be eligible for re-election. The professional profiles of Vukile Mehana, Mdu Gama and David Kan can be found on pages 82 and 83 respectively in the integrated annual report.

Non-executive director tenure and succession

The management of the Board's succession process is crucial to its sustainability. The Remuneration and Nominations Committee ensures that, as directors retire, candidates with the necessary experience are identified to ensure that the Board's competence and balance is maintained and enhanced, taking into account the Group's current and future needs.

Leadership roles and functions

Non-executive directors

All members of the Board have a fiduciary responsibility to represent the best interest of the Group and all of its stakeholders. The Group's non-executive directors are individuals of a high calibre and credibility who make a significant contribution to the Board's deliberations and decisions. They have the necessary skills and experience to exercise judgement on areas such as strategy, performance, transformation, diversity and employment equity.

The chairman

The chairman's role is to set the ethical tone for the Board and to ensure that the Board remains efficient, focused and operates as a unit. Vukile Mehana is a non-executive chairman and his role is separate from that of the chief executive officer, David Kan. Mdu Gama is the appointed lead independent director and provides support to the chairman.

Vukile Mehana provides overall leadership to the Board and the chief executive officer without limiting the principle of collective responsibility for Board decisions. Vukile Mehana is a member of the Remuneration and Nominations Committee.

Chief executive officer

The Board appoints the chief executive officer to lead and implement the execution of the approved strategy. David Kan, supported by the managing director Hein Engelbrecht, serves as the link between management and the Board and is accountable to the Board. Quarterly progress reports are received from the chief executive officer on the progress made against the implementation of the strategy. The Remuneration and Nominations Committee evaluates the performance of the chief executive officer against approved targets on an annual basis.

Company secretary

The company secretary plays a vital role in the corporate governance of the Group and is responsible for ensuring Board compliance with procedures and regulations of a statutory nature. The company secretary ensures compliance with the JSE Listings Requirements and is responsible for the submission of the annual compliance certificate to the JSE Limited.

The company secretary ensures that, in accordance with the pertinent laws and regulatory framework, the proceedings and affairs of the Board and its members and the company itself are properly administered.

CORPORATE GOVERNANCE REPORT continued

The Board satisfied itself regarding Sirkien van Schalkwyk's work experience, performance, technical skills and overall competence in fulfilling her role as company secretary at the previous meeting of the Board (during which time she was excused from the meeting). She is a consultant and maintains an arm's length relationship with the Board. She reports to the chairman on all statutory duties and functions performed relating to the Board.

The company secretary's primary responsibilities are to:

- ensure that Board procedures are followed and reviewed regularly
- ensure applicable rules and regulations for the conduct of the affairs of the Board are complied with
- maintain statutory records in accordance with legal requirements
- guide the Board as to how its responsibilities should be properly discharged in the best interest of the company
- keep abreast and inform, the Board of current and new developments regarding best practice corporate governance thinking and practice.

Ethical and effective leadership

The Board is committed to achieving its goals with integrity, high ethical standards and in compliance with all applicable laws, while being a responsible corporate citizen. The Board has adopted a Code of Ethics and Business Conduct which is continuously reviewed and sets the tone for an ethical culture within the Group. The directors are fully committed to these principles, which ensures that the business is managed according to the highest ethical standards, even beyond mere legal compliance, within its operating environment, as well as social, political and physical environment within which the Group operates.

The Code of Ethics and Business Conduct is included as part of induction for new employees as well as other regular training programmes and is available on the company's website at **www.mustek.co.za**. Ethics are part of our recruitment process, evaluation of performance and rewards of employees as well as the sourcing of suppliers.

No material ethical leadership and corporate citizenship deficiencies were noted. The Board, through the Audit and Risk Committee and the Social and Ethics Committee, monitors compliance with Mustek's Code of Ethics and Business Conduct through various reporting channels including its internal audit department and the whistle-blower hotline. Quarterly feedback is given to the relevant committees and the Board while sanctions and remedies are in place when ethical standards are breached.

Mustek received no requests in terms of the Promotion of Access to Information Act, 2000 during the reporting period.

Independence and conflicts

During the year ended 30 June 2020, none of the directors had a significant interest in any contract or arrangement entered into by the company or its subsidiaries, other than as disclosed in note 21 to the annual financial statements.

During the reporting period, the declaration and conflict of interest policy was reviewed and updated. Directors are required to inform the Board timeously of conflicts or potential conflicts of interest that they may have in relation to particular items of business. Directors are obliged to excuse themselves from discussions or decisions on matters in which they have a conflict of interest, in accordance with the declaration and conflict of interest policy that is in place. A standard agenda item is included for members to declare whether any of them have any conflict of interest in respect of a matter on the agenda. This is minuted accordingly.

When categorising the non-executive directors as independent, the interests, position, association or relationship is taken into consideration. Independent non-executive directors serving for longer than nine years are subjected to a rigorous review of their independence and performance by the Board.

The Board makes full disclosure regarding individuals serving for more than nine years to enable shareholders to make their own assessment of directors.

This, together with the test of being judged from the perspective of a reasonable and informed third party and other indicators in a substance-over-form basis, Lindani Dhlamini, Ralph Patmore and Mdu Gama were found to be independent. The categorisation of directors can be found on pages 82 and 83 of the integrated annual report.

Insider trading

No employee of the Group may deal directly or indirectly in the company's shares based on unpublished price-sensitive information regarding business. No director or officer of the Group may disclose trade information regarding business. Directors or officers of the Group are precluded from trading in the shares of the Group during a closed period or prohibited period, as determined by the Board. Notification to this effect is communicated to the Group's employees. A price-sensitive information Group policy is in place in line with the JSE Listings Requirements.

Any director wishing to trade in ordinary shares of the company must obtain clearance from the chairman of the Board or, in his absence, the chief executive officer. The directors keep the company secretary advised of all their dealings in securities and details of dealings are placed on SENS in line with the JSE Listings Requirements.

Assessment of the Board

The Board of directors analyses and evaluates its effectiveness in line with King IV. The Board agreed to conduct evaluations every second year. The next evaluation will be conducted during the 2021 financial year.

Commitment to the governance principles set out in King IV

The Board remains committed to the principles of King IV and ensures that its recommendations are materially entrenched into the Board's internal controls, policies, terms of reference and overall procedures and processes. A King IV application register, setting out how the company has applied the principles of King IV, is available on our website, **www.mustek.co.za**.

Integrated effective control

As the custodian of governance, the Board is ultimately responsible for ensuring there is effective control within the business. The Board ensures effective control through a number of mechanisms, including:

Compliance with applicable laws, regulations and governance practices

The decisions and actions taken by the Board ensures that the company subscribes to full compliance with applicable laws, regulations and governance practices. This function is delegated to the Social and Ethics Committee with financial compliance overseen by the Audit and Risk Committee. During the financial year, the company was fully compliant with the requirements of the company's memorandum of incorporation, the Companies Act and JSE Listings Requirements.

The Board Charter

The roles and responsibilities of the Board and individual directors are set out in the Board Charter, which is aligned with the provisions of relevant statutory and regulatory requirements and is reviewed on an annual basis. The Charter regulates the parameters within which the Board operates and ensures the application of the principles of good governance in all its dealings.

Governance structures and delegation

The company's governance structure provides for delegation of authority, while enabling the Board to retain effective control. Such structures similarly support and enable the informed oversight exercised by the Board.

The Board delegates authority to established Board committees, as well as the chief executive officer, with clearly defined mandates.

Board committees

The roles, responsibilities and composition of the Board committees are described below. The responsibilities delegated to these committees are formally documented in each committee's terms of reference, which are approved by the Board and reviewed annually. After each committee meeting, committee chairmen report back to the Board, which facilitates transparent communication between directors and ensures that all aspects of the Board's mandate are addressed.

The terms of reference are subject to change as and when required by the Board in order to accommodate the company's changing needs. Roles and associated responsibilities and the composition of membership across committees are considered holistically. All committees have a minimum of three members and, as a whole, have the necessary knowledge, skills, experience and capacity to execute their duties effectively. The chairman of each Board committee reports at each scheduled meeting of the Board, and minutes of Board committee meetings are provided to the Board.

Both the directors and the members of the Board committees are supplied with full and timely information that enables them to properly discharge their responsibilities. All directors have unrestricted access to all Group information.

The chairman of each Board committee is required to attend annual general meetings to answer questions raised by shareholders.

Audit and Risk Committee

In reviewing the committee composition during the year, it was decided that, due to the size of the company, the Audit and Risk Committee would remain one committee. However, the agenda is divided into two separate sections so as to ensure that both audit and risk management responsibilities are attended to.

The committee, appointed by the Board and approved by shareholders at the company's annual general meeting on 28 November 2019, comprised three independent non-executive directors, all of whom satisfied the requirements of section 94(4) of the Companies Act. As a collective and having regard to the size and circumstances of the Group, the committee is adequately skilled, and all members possess the appropriate financial and related qualification, skills, financial expertise and experience required to discharge their responsibilities.

CORPORATE GOVERNANCE REPORT continued

It was recommended that the composition of the Audit and Risk Committee remain the same. The chief executive officer, managing director, financial director, external audit partner and the internal auditor attend meetings by invitation. The Board is satisfied that the independence, experience and qualifications of each member enable them to fulfil the committee's mandate. In addition to the quarterly meetings, the committee meets at least once a year with the company's internal and external auditors, without management being present.

BDO South Africa Inc. was appointed as external auditors, in place of Deloitte, effective 20 January 2020.

During the reporting period, Phakisa Inc. advised that they would join BDO and presented this independence risk. After consideration, the committee decided to end the internal audit contract with Phakisa. Subsequently, Prozilog, represented by Everhard Carstens, was appointed as independent internal auditors effective 1 June 2020.

Summarised roles and responsibilities:
- Providing the Board with additional assurance regarding the efficiency and reliability of the financial information used by the directors to assist them in the discharge of their duties
- Reviewing interim and annual financial statements, the integrated annual report and any other external reports issued by the organisation
- Overseeing the internal audit function
- Ensuring that significant business, financial and other risks have been identified and are being managed suitably
- Ensuring independence of external audit and overseeing the external audit process
- Ensuring good standards of governance, reporting and compliance are in operation
- Overseeing the Group's risk management profile
- Considered the impact of COVID-19 in terms of the financial results.

During the 2020 financial year, the committee met on four occasions and meetings were scheduled in line with the Group's financial reporting cycle. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period, including considerations of the impact of COVID-19 on the operational and financial risks.

Refer to page 121 of the annual financial statements for the Audit and Risk Committee report.

Group IT Steering Committee

Within the Group, the Group IT Steering Committee is the committee responsible for the governance of technology and information and sets the direction for how technology should be approached and addressed. The strategic intent of Group IT is documented and communicated in the Group IT strategy and is aligned with the enterprise strategy.

The committee is chaired by the chief executive officer, with Dimitri Tserpes being the Mustek chief technical officer. Olga-Lee Levey is the Group chief information officer and other relevant senior staff are included in meetings. The Group IT Steering Committee meets formally at least four times a year to report on their duties in accordance with its terms of reference as approved by the Board. The committee reports to the Board via the Audit and Risk Committee.

Social and Ethics Committee

There were no changes made to the composition of the Social and Ethics Committee during the reporting period. The committee's role and responsibilities as well as its composition are set out below.

Summarised roles and responsibilities:
- Planning, implementing and monitoring the Group's strategy for transformation
- Monitoring compliance with legislation
- Monitoring employment equity and fair labour practices
- Monitoring good corporate citizenship and the Group's contribution to the development of communities in which it operates
- Monitoring ethics and business conduct.

The Social and Ethics Committee met twice during the reporting period. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Refer to page 92 of the integrated annual report for the Social and Ethics Committee report.

Employment Equity Committee and Skills Development Committee

Both committees are chaired by Mdu Gama, an independent non-executive director. The Employment Equity Committee and Skills Development Committee only met three times during the reporting period. The fourth meeting was postponed in order to comply with social distancing requirements. Both these committees give feedback to the Board via the Social and Ethics Committee.

Remuneration and Nominations Committee

In reviewing the committee composition during the year, it was decided that, due to the size of the company, the Remuneration Committee and Nominations Committee would remain one committee.

Summarised roles and responsibilities

- Identifying and nominating new directors for approval by the Board
- Ensuring that appointments to the Board are formal and transparent
- Approving the classification of directors as independent
- Overseeing induction and training of directors and conducting annual performance reviews of the Board and Board committees
- Overseeing an appropriate separation between executive, non-executive and independent directors
- Ensuring proper and effective functioning of the Group's Board committees
- Reviewing the Board's structure, the size and composition of the various Board committees and making recommendations
- Oversees the remuneration philosophy and practices
- Oversees and monitors Mustek's share appreciation rights scheme.

The Remuneration and Nominations Committee met twice during the reporting period and the committee composition remained the same. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Refer to page 96 for the remuneration report by the Remuneration and Nominations Committee, including the remuneration policy.

Below is a summary of all the Board members' attendance at Board committee meetings:

Name Qualification	Classification	ARC	RNC	SEC	EE	SD	IT
Vukile Mehana *BTh, AMP, Top Management Programme Certificate on Public Enterprise, MBA*	Non-executive Board chairman		2/2				
Lindani Dhlamini *BSc, CA(SA)*	Independent non-executive director	4/4*					
Mdu Gama *BCom (Acc), MBA, PhD (Finance)*	Lead independent non-executive director	4/4	2/2	2/2*	3/3*	3/3*	
Ralph Patmore *BCom, MBL, Stanford Executive Programme*	Independent non-executive director	4/4	2/2*	2/2			
David Kan *BSC (Eng)*	Chief executive officer						4/4*
Hein Engelbrecht *BCom (Hons), CA(SA)*	Managing director				3/3	3/3	4/4
Neels Coetzee *CA(SA)*	Financial director						4/4

** Chairman*
ARC – Audit and Risk Committee
RNC – Remuneration and Nominations Committee
SEC – Social and Ethics Committee
EE – Employment Equity Committee
SD – Skills Development Committee
IT – IT Steering Committee

SOCIAL AND ETHICS COMMITTEE REPORT

Performance for 2020

This report is prepared in compliance with the requirements of the Companies Act, and describes how the committee discharged its responsibilities in respect of the financial year ended 30 June 2020 and will be presented to the shareholders at the annual general meeting to be held in November 2020.

Social and Ethics Committee members

The composition of the committee remained unchanged during the reporting period and was still in line with King IV principles, namely that the majority of members should be non-executive directors of the Board.

Two meetings were held during the reporting period. The committee composition and meeting attendance are below:

Name	Position	Qualification	Experience	Meetings attended
Mdu Gama	Independent member	BCom (Acc), MBA, PhD (Finance)	Over 20 years' experience in financial management	2/2
Ralph Patmore	Independent member	BCom, MBL, Stanford Executive Programme	Over 30 years' experience in management, strategy, mergers and acquisitions and accounting matters	2/2
Spencer Chen	Managing director: Rectron	Diploma	Over 20 years' experience in management, operations and procurement	2/2

Responsibilities of the committee

During the reporting period, the Social and Ethics Committee's terms of reference were reviewed. In accordance with the terms of reference and annual work plan, the committee fulfils the functions and responsibilities assigned to it in terms of the company's compliance with the applicable requirements of Regulation 43 of the Companies Act, the company's activities in relation to relevant legislation and prevailing codes of best practice, and such other functions as may be assigned to it by the Board from time to time in order to assist the Board in ensuring that the Group remains a responsible corporate citizen.

The key objectives and responsibilities of the committee, which are aligned with the committee's statutory functions as set out in the Companies Act, form the basis of its annual work plan, and include the following:

- social and economic development
- the Group's standing relative to the United National Global Compact Principles, the Organisation for Economic Co-operation and Development (OECD) recommendations regarding the combating of corruption and human rights
- compliance with the Employment Equity Amendment Act, 47 of 2013 and the Broad-Based Black Economic Empowerment Act, 53 of 2003 and associated Codes of Good Practice
- good corporate citizenship, including the Group's contribution to the development of communities in which it operates or markets its goods to and the Group's record of sponsorships, donations and charitable giving
- good corporate citizenship, including the Group's positioning and efforts in promoting equality, preventing unfair discrimination and combating corruption
- promotion of equality and transformation and preventing unfair discrimination, through its Code of Ethics and Business Conduct, and other social responsibility policies and strategies
- the environment, health and public safety, including the impacts of the Group's activities and products on the environment and society
- consumer relationships, including the Group's advertising, public relations and compliance with consumer protection laws
- labour and employment, including the Group's standing relative to the International Labor Organization (ILO) Protocol on decent work and working conditions, and the Group's employment relationships and contribution to the educational development of its employees
- generally, the monitoring of the social, ethics, economic, governance, employment and environmental activities of the Group against internationally recognised human rights principles and other relevant best practice standards.

Ethics and business conduct

The Group's Code of Ethics and Business Conduct, which embodies its guiding principles and values, was reviewed during the year and found to be relevant. The Group's Code of Ethics and Business Conduct are included in induction packs for new employees. This policy deals with, inter alia, no tolerance for discrimination in whatever form, human rights, health and safety and the implementation of the Group's ethical standards to stakeholders. The Code of Ethics and Business Conduct is available on the company's website **www.mustek.co.za**.

The company's fraud line was reviewed during the year and confirmed to be relevant and effective, providing an appropriate balance between encouraging reporting and discouraging malicious and frivolous reporting. Feedback in terms of calls received, via the fraud line or directly with the internal auditor or human resources department, are reported on at each meeting.

Labour

Employment equity policies embody our commitment to implementing employment equity across the Group.

Deviation appointments to the employment equity plan are discussed at Employment Equity Committee meetings.

Skills development remains an area of focus and the various skills development programmes that have been implemented are reported on more fully in this integrated annual report.

Refer to the sustainability report on the website for more information **www.mustek.co.za**.

Socio-economic development

The Group's commitment is to foster good relations with the communities in which we operate, and in so doing continues to pursue its business philosophy, which is to draw the staff it needs from the local communities in which it operates and in so doing provides much-needed employment and other socio-economic benefits to local communities.

Transformation

Mustek remains focused on achieving its transformation goals and objectives. During the reporting period, Mustek Limited again achieved a level 1 B-BBEE rating, and Rectron Proprietary Limited achieved a level 2.

The following is the progress made against the scorecard of Mustek Limited:

Scorecard element	BEE score	Planned future focus areas
Equity ownership	25.00	• Focus on increasing black ownership.
Management control (including employment equity)	13.83	• Compliance to five-year employment equity plan. • Increased compliance with equity aligned recruitment policies.
Skills development	22.58	• One of our core focus areas, in support of the country's priority of educational focus.
Enterprise and supplier development: • Preferential procurement • Enterprise development • Supplier development.	47.34	• Focus on supporting SMMEs and EMEs. • Stricter compliance to procurement policies.
Socio-economic development	12.00	• Alignment with country's focus on uplifting previously disadvantaged communities, particularly in the areas of ICT and education.

SOCIAL AND ETHICS COMMITTEE REPORT continued

Stakeholder management

The stakeholder engagement framework outlines the Group's guiding principles for stakeholder engagement which are congruent with the values espoused in the Group's formal Code of Ethics and Business Conduct. Formalisation of the Group's stakeholder engagement plan remained an agenda item.

Employee engagement is a particular focus area during the COVID-19 lockdown period, with employees working from home if their roles allow. The Group sends out regular email communication with information and guidance to our employees. During the lockdown, information is shared on WhatsApp groups by line managers based on formal communications shared by executives via email. This system remains in place as our employees return to work to ensure that critical information reaches everyone who may miss it on email. As our employees return to work, the Group continues to communicate safety measures via regular updates, educational posters and social distancing stickers.

The company strives to provide an attractive return to shareholders and valid, accurate and relevant information which complies with all related legislation through the shareholders' selected channel of communication.

Stakeholder group	Key issues	Our response thereto
Shareholders and investor community	Business sustainability, share liquidity, debt-to-equity ratio, ROI	Operate with the optimal capital structure, review of debt facility, investor presentations and roadshows, face-to-face meetings, strategy execution, risk management
Customers	Legislative and regulatory landscape, Consumer Protection Act compliance	Product and service innovation, services integration, customer service, employee benefits, labour law education, business consulting, training, risk management, compliance, delayed negative decision-making by clients, credit terms
Employees	Job security during COVID-19, working conditions, benefits, employee welfare, training, mentoring, succession planning, remuneration, reward and recognition, health and safety, water saving	Mustek applied for the Temporary Employer/ Employee Relief Scheme (TERS) benefit and employees received the equivalent of their salaries through a combination of salaries, paid leave and TERS Ongoing legal and regulatory training for sales and operational staff, line of sight for promotions, improved remuneration, clear KPIs, added benefits, improvement in health and safety, improved efficiency, training, upskilling, staff retention, lower absenteeism, awareness and education on the subject of water saving, specifically in the Western Cape
Local communities	Youth employment, training and skills development, mentoring, labour desks, local recruitment, employee welfare, local vendors, CSI community support, local school support	Focus on youth employment, recruitment drives to source staff from local communities, trust in recruitment process, utilisation of local service providers, effective reporting, brand support, community support through CSI initiatives
Government and regulators	Compliance with industry regulation, skills development, B-BBEE, employment equity, JSE Listings Requirements	Legislative and regulatory compliance, transformation and B-BBEE, risk management

Stakeholder group	Key issues	Our response thereto
Suppliers	Preferential supplier listing, products and pricing, empowerment rating, enterprise development	Underwriting tender process established, product availability, preferential supplier agreements, empowered supplier status, transformation strategy, enterprise development negotiations
Media	Results announcements, media statements, editorials, advertisements, meetings	Investor relations, public relations, communications and marketing strategy, responsible to socio-economic issues

Sustainability

The Group's sustainability framework gives focus to energy and emissions, waste management, economic factors and product responsibility. These matters are elaborated upon further in this report.

Environment

The underlying philosophy of the Group's environmental policy is the adoption of protective strategies to manage and control the impact of Mustek's operations upon the environment, at the same time as safeguarding its extensive assets and human resources.

Refer to the sustainability report on the website for more information **www.mustek.co.za**.

Health and safety

The Group continues with its endeavours to constantly improve its health and safety practice. These continue to improve annually and are reported on in this report.

COVID-19 compliance

The Mustek Group was very proactive about putting infection control measures in place, including systems much more stringent than required by the government. No expense has been spared in terms of staff safety.

A COVID-19 committee is in place, comprising 10 employees, to ensure that all policies and procedures for dealing with every eventually are in place.

Anyone entering our building is screened and their hands are sanitised with an alcohol-based product. Masks are provided freely to anyone entering the premises. Those who can work from home are encouraged to do so, and screens are up in our open-plan offices. The teams have been split into two, so that one half of the workforce does not come into contact with the other.

Testing, tracing and tracking mechanisms are in place. Should an employee show symptom of infection, they are encouraged to stay at home and get tested. Should the results come back negative, the employee returns to work. If the test is positive, we identify the contacts so that they can be quarantined and tested.

During the reporting period, Mustek drafted and implemented the following:
- COVID-19 policy
- risk assessment and SOP
- medical surveillance procedure
- reporting of possible infection procedure
- drafting and roll-out of new induction presentation
- documents drafted in line with government regulations.

Evaluation of committee performance

The committee decided to only conduct evaluations every second year. The results will be included in the integrated annual report of 2021.

Mdu Gama
Social and Ethics Committee chairman

7 September 2020

REMUNERATION AND NOMINATIONS COMMITTEE REPORT

This report comprises three sections:
PART I: Matters considered by the Remuneration and Nominations Committee
PART II: Remuneration policies and principles for shareholders' vote at the annual general meeting
PART III: Implementation report of the remuneration policy.

PART I: REPORT FROM THE REMUNERATION AND NOMINATIONS COMMITTEE

In reviewing the committee's composition during the year, it was decided that, due to the size of the company, the Remuneration and Nominations Committee will remain one committee.

Appointment of directors to the Board

Apart from a candidate's experience, availability and likely fit, the committee also considers candidates' integrity, as well as other directorships and commitments to ensure that the candidate will have sufficient time to discharge his/her role properly. The Remuneration and Nominations Committee also considers race and gender diversity in its assessment in line with its gender and race diversity policy and voluntary targets were confirmed during the reporting period. The targets were reviewed during the reporting period and remain unchanged at 50% and 30% for race and gender respectively.

Remuneration and Nominations Committee members

The committee comprises three non-executive directors, two of whom are independent. The chairman of the Board is not eligible for appointment as chairman of the committee but will preside as chairman when the committee fulfils its oversight responsibilities on nomination matters.

Two meetings were held during the reporting period. The committee composition and meeting attendance is below:

Name	Position	Qualification	Experience	Meetings attended
Ralph Patmore	Independent member (remuneration chairman)	BCom, MBL, Stanford Executive Programme	Over 30 years' experience in management, strategy, mergers and acquisitions and accounting matters	2/2
Mdu Gama	Independent member	BCom (Acc), MBA, PhD (Finance)	Over 30 years' experience in financial management	2/2
Vukile Mehana	Non-executive member (nominations chairman)	BTh, AMP, Top Management Programme Certificate on Public Enterprise, MBA, DPhil	Over 30 years' experience in management, transformation, stakeholder relations and community development	2/2

Role of the Remuneration and Nominations Committee

The Remuneration and Nominations Committee has reviewed the terms of reference, approved by the Board, setting out its duties and responsibilities.

The committee:

- Assumes responsibility for the governance of remuneration by setting the direction for how remuneration should be approached and addressed on a company-wide basis
- Approves a remuneration policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration
- Ensures the remuneration policy and implementation report is put to a non-binding advisory vote at the annual general meeting of shareholders once every year
- Considers the results of the performance evaluation of the chief executive officer, managing director and financial director, both as directors and as executives, in determining remuneration
- Recommends to the Board the remuneration of non-executive directors for approval by shareholders
- Determines the policy and scope of pension arrangements, employment contracts, termination payments and compensation commitments and makes recommendations to the Board on these benefits for executive directors
- Reviews market trends and reputable survey results in determining such packages and arrangements
- Regularly reviews the incentive scheme to ensure continued contribution to shareholder value and that these are administered in terms of the rules
- Assumes responsibility for its composition by setting the direction and approving the process for it to attain the appropriate balance of knowledge, skills, experience, diversity and independence to objectively and effectively discharge its governance role and responsibilities
- Regularly reviews the Board structure, size, composition and mix of skills and experience and makes recommendations to the Board with regards to any adjustments that are deemed necessary
- Set targets for race and gender representation in its membership for recommendation to the Board
- Establishes arrangements for periodic, staggered rotation of its members so as to invigorate its capabilities by introducing members with new expertise and perspectives while retaining valuable knowledge, skills and experience and maintaining continuity for recommendation to the Board
- Ensures succession plans for chief executive officer and senior management appointments are developed and implemented and confirmed by the Board.

Committee evaluation

The committee decided to only conduct evaluations every second year. The results of the next evaluation will be included in the integrated annual report of 2021.

Ralph Patmore
Remuneration and Nominations Committee chairman

7 September 2020

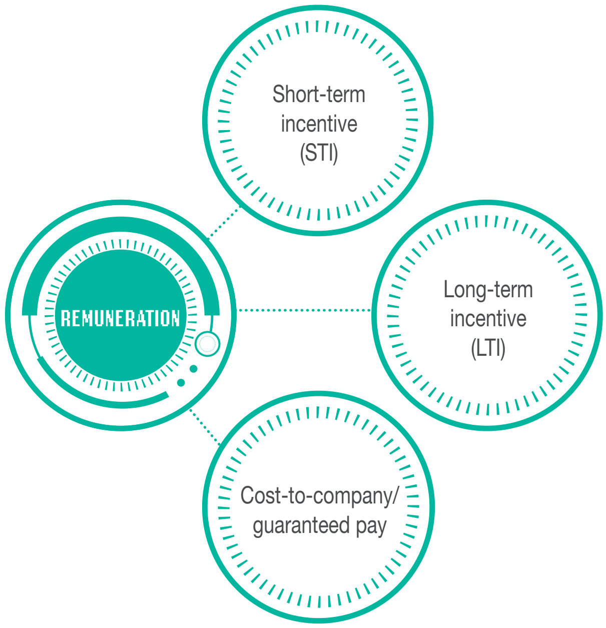
REMUNERATION AND NOMINATIONS COMMITTEE REPORT continued

PART II: REMUNERATION POLICY

Background statement

The Group's remuneration policy aims to attract, retain and motivate skilled and performing employees to execute the Group's strategy. The remuneration philosophy and framework are predominantly guided by the business strategy. During the reporting period, the remuneration policy and framework was enhanced in line with King IV in a conscious effort to give effect to the principles of fair, responsible and transparent remuneration. Where appropriate, information for employees below executive level are included.

The Group offers an integrated remuneration and reward model, which comprises of:



Remuneration structure

Element	Cost-to-company: Base pay	Cost-to-company: Benefits	Variable pay: STI	Variable pay: LTI
Mustek Group	• Monthly salary • Hourly wage.	• Medical aid • Provident fund • Funeral benefit • Travel allowance.	• Annual incentive • Bonus scheme.	• Share appreciation rights • Performance shares.
Objective	Retention and attraction	• Retention in terms of the comprehensiveness of benefits offered • Attraction to offer similar benefits to prospective employees.	• Reward company and Group performance • Reward individual performance • Retention/attraction recognition.	• Reward company and Group performance • Reward individual performance • Retention/attraction recognition • Recognition of Group's long-term success.

Guaranteed packages

Following established best market practice, salaries are set with reference to the scope and nature of an individual's role and his or her performance and experience, comparing with the 25th to 75th quartile pay levels of South African companies to ensure sustainable performance and market competitiveness.

Employees receive guaranteed packages which might include membership of one of the Group's medical health care schemes and a travel or vehicle allowance for necessary business travel.

Employees' guaranteed remuneration is reviewed and after recommendation to the Board, implemented effective from July 2020.

Short-term incentive

The Board rewards management and salaried employees with an annual performance incentive based on certain criteria listed below. The actual value awarded is subject to the achievement of predetermined thresholds relating to the performance and position of the Group and individual performance during the reporting period.

The executive directors are appraised against a clear set of objectives and key performance indicators to ensure they are remunerated fairly and responsibly. Executive directors and senior managers are measured and remunerated according to their alignment, achievement and contribution to the Group's strategy and financial performance.

The committee may from time to time consider discretionary short-term bonuses for individuals.

All payments in terms of the quantitative portion of the STI scheme are based on audited year-end results. The bonus paid out therefore always relates to the results of the previous year.

For the year ending 30 June 2021 weighting for STIs will be as follows:

- 20% ROE
- 40% profit before tax (PBT)
- 20% working capital management
- 20% discretionary.

These components would be scored as follows:

ROE

- ROE < 7.5% = score of 0% and only the discretionary portion of the incentive will qualify
- ROE of 7.5% = score of 50%
- ROE between 7.5% and 11.5% = score is calculated on a sliding scale ranging between 50% and 100%
- ROE > 11.5% = score of 100%.

PBT

IFRS 2 variations to the budget would be added back since it is determined by share price movements:

- < budget = score of 0%
- On budget = score of 50%
- 5% above = score of 75%
- 10% above = score of 100%.

Working capital

- If the improvement in accounts receivable and inventory as a percentage of annualised revenue is 10% or more compared to the average for the previous four years, a score of 100% would be achieved for this component
- If the improvement in net working capital as a percentage of annualised revenue is between 5% and 10% compared to the average for the previous four years, a score of 75% would be achieved for this component
- If the improvement in net working capital as a percentage of annualised revenue is between 0% and 5% compared to the average for the previous four years, a score of 50% would be achieved for this component
- If there is no improvement in net working capital as a percentage of annualised revenue compared to the average for the previous four years, no score would be achieved for this component.

Net working capital would be calculated by adding receivables and inventory and then dividing it by annualised revenue. The calculation would be done on a quarterly basis and the average score for the year will be used to determine the score for this component.

The Mustek executive directors can earn up to 100% of their annual cost-to-company guaranteed packages as bonuses. The Rectron executive directors and Mustek's Executive Committee members can earn up to 50% of their annual cost-to-company packages as bonuses.

Mustek's Exco members' bonuses would be calculated based on Mustek's performance whereas Rectron's executive directors' bonuses will be calculated based on Rectron's performance. The Mustek executive directors' bonus calculation would be based on the Group's performance.

REMUNERATION AND NOMINATIONS COMMITTEE REPORT continued

Long-term incentive

The LTI plan forms part of the variable compensation and is used to attract, retain and motivate employees who influence the long-term sustainability and strategic objectives of the Group. The purpose is to foster sustainable performance or value creation over the long term, which is aligned to the Group's strategy and which enhances stakeholder value. Its main characteristic is the promise to deliver value over a future vesting period, once performance criteria are met or exceeded.

The directors may, on an annual basis or from time to time, grant options to employees selected by the Remuneration and Nominations Committee. The Remuneration and Nominations Committee shall determine the number of share appreciation rights (SARs). The price at which SARs may be granted will be the average market price of the ordinary shares of the company on the JSE, as certified by the company secretary, for the 30 days of June each year. All SARs granted will remain in force for a period of six months after vesting.

SARs may only be exercised by an employee or retired employee subject to the achievement of certain performance hurdles that may be determined by the directors from time to time.

The price at which SARs may be exercised will be the weighted average market price of the ordinary shares of the company on the JSE, for the 30 days immediately preceding that on which the employee is exercising the option. Upon the exercising of the SARs, the employee will be paid an amount determined as the difference between the exercise price and the grant price multiplied by the number of SARs, less any tax that may at that time be applicable to such a cash bonus. The maximum payment per tranche is capped at R20.0 million.

Details of the benefits held by the executive directors under the existing LTI schemes are detailed in note 21 of the annual financial statements.

Policy on directors' remuneration

The directors are appointed to the Board to bring competencies and experience appropriate to achieving the Group's objectives.

Non-executive directors

It is the Group's policy to identify, attract and retain non-executive directors who can add value to Mustek. The Board applies principles of good corporate governance relating to directors' remuneration and also keeps abreast of changing trends. Governance of directors' remuneration is undertaken by the committee.

The committee takes cognisance of market norms and practices as well as additional responsibilities placed on the Board members by new legislation and corporate governance principles.

The fees for non-executive directors are recommended by the committee and will be tabled for approval by the shareholders at the annual general meeting on 30 November 2020.

Non-executive directors receive a base fee for their main Board membership and an attendance fee per meeting. Board members only receive fees for meetings they attend.

The policy on remuneration for non-executive directors is that this should:

- be market related (having regard to the median fees paid and number of meetings attended by non-executive directors of companies of similar size and structure to similar sectors)
- not be linked to the share price of Mustek.

The non-executive fees are benchmarked against the 13th fee survey for "small cap technology" issued by PricewaterhouseCoopers annually.

Non-executive directors do not receive bonuses or share options, as it is recognised that this can create potential conflict of interest which can impair the independence which non-executive directors are expected to bring to bear in decision-making by the Board.

Shareholders will be requested to approve an increase of 3% to the director fees as set out in the notice of annual general meeting on page 108 and below:

Category	Recommended remuneration
Chairman	R425 500 annual retainer
Board member	R109 700 annual retainer R16 250 per meeting attended
Audit and Risk Committee	
Chairman	R87 700 annual retainer R20 550 per meeting attended
Member	R55 500 annual retainer R13 500 per meeting attended
Remuneration and Nominations Committee	
Chairman	R64 700 annual retainer R19 050 per meeting attended
Member	R48 050 annual retainer R12 750 per meeting attended
Employment Equity and Skills Development Committee	
Chairman	R32 250 annual retainer
Member	R18 300 annual retainer
Social and Ethics Committee	
Chairman	R28 100 annual retainer R10 450 per meeting attended
Member	R11 690 annual retainer R5 040 per meeting attended

Use of external remuneration advisers

From time to time, advice from external remuneration advisers (specified above) are obtained to ensure that the remuneration policy and our implementation thereof are informed by market-related data, current industry and general best practice remuneration trends. The committee is satisfied that the services rendered by these external advisers were at all times independent and objective. Overall, the committee is satisfied that the remuneration policy achieved its objectives for the past year.

Results of previous voting on the remuneration policy and voting procedures going forward

Mustek received an 98.35% non-binding advisory vote in favour of its remuneration policy at the annual general meeting held on 28 November 2019. The remuneration policy (as set out in part II) and our implementation report (as set out in part III) will again be put to shareholders as two separate non-binding advisory votes at the annual general meeting to be held on 30 November 2020.

REMUNERATION AND NOMINATIONS COMMITTEE REPORT continued

PART III: REMUNERATION IMPLEMENTATION REPORT

The remuneration implementation report details the outcomes following the implementation of the approved remuneration policy detailed on pages 98 to 101 above.

Total directors' remuneration

The table below provides an overview of the total remuneration paid to executive and non-executive directors for the financial year ended 30 June 2020:

	2020 R000	2019 R000
Executive directors	17 889	21 707
Non-executive directors	1 669	1 565
Total	**19 558**	23 272

Executive directors' remuneration

Executive directors	Basic salary R000	Expense allowances R000	Pension fund contributions R000	Bonus and per-formance-related R000	Share appreciation rights exercised R000	Fringe benefit on interest-free loan R000	Total R000
2020	9 439	696	457	1 241	2 877	3 179	17 889
DC Kan	3 414	330	183	460	1 128	1 902	7 417
H Engelbrecht	3 333	270	186	444	959	1 039	6 231
CJ Coetzee	2 692	96	88	337	790	238	4 241

Executive directors	Basic salary R000	Expense allowances R000	Pension fund contributions R000	Bonus and per-formance-related R000	Share appreciation rights exercised R000	Fringe benefit on interest-free loan R000	Total R000
2019	8 724	688	651	2 013	6 513	3 118	21 707
DC Kan	3 157	322	261	748	1 670	1 860	8 018
H Engelbrecht	3 074	270	265	722	3 507	1 020	8 858
CJ Coetzee	2 493	96	125	543	1 336	238	4 831

Non-executive directors' remuneration

The participation of non-executive directors in the Group is essential to the Group achieving its strategic objectives and non-executive directors' fees are therefore recommended by the executive directors and Remuneration and Nominations Committee with this in mind.

In accordance with the Companies Act, and the company's memorandum of incorporation, non-executive directors' fees are approved by the shareholders at the annual general meeting. The current fee levels are to be approved by shareholders at the annual general meeting to be held on 30 November 2020 and is stated on page 108 of the notice of annual general meeting included in this integrated annual report.

The total amount spent on non-executive directors' fees for 2020 and 2019 are as follows:

Non-executive director	2020 Fees for services R000	2019 Fees for services R000
VC Mehana	485	457
LL Dhlamini	335	298
ME Gama	447	426
RB Patmore	402	384
	1 669	1 565

Directors' service contracts

There are no fixed-term service contracts for executive or non-executive directors. The Remuneration and Nominations Committee reviewed the employment contracts of the chief executive officer, managing director and financial director and found this to be still appropriate to meet the needs of the company. Notice periods for these executive directors are three months.

NOTICE OF ANNUAL GENERAL MEETING

MUSTEK LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1987/070161/06)
Share code: MST ISIN: ZAE000012373
(Mustek or the company or the Group)

As a result of the impact of COVID-19 and the restrictions placed on public gatherings, shareholders are welcome to participate in the annual general meeting electronically by completing the form following the proxy.

Notice is hereby given that the annual general meeting of the company's shareholders will be held at Mustek Limited's head office at 322 15th Road, Randjespark, Midrand on Monday, 30 November 2020 at 10:00 (the annual general meeting).

PURPOSE

The purpose of the meeting is to present, consider and adopt the financial statements of the company for the year ended 30 June 2020; to transact the business set out in this notice of annual general meeting by considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions hereunder; and to transact such other business as may be transacted at the annual general meeting.

RECORD DATE, ATTENDANCE AND VOTING

	2020
Record date in order to be eligible to receive the annual general meeting notice	Friday, 23 October
Annual general meeting notice posted to shareholders	Friday, 30 October
Last date to trade in order to be eligible to vote at the annual general meeting	Tuesday, 17 November
Record date in order to be eligible to vote at the annual general meeting	Friday, 20 November
Submit forms of proxy for administration purposes for the annual general meeting (by 10:00)	Thursday, 26 November
Annual general meeting (at 10:00)	Monday, 30 November
Results of the annual general meeting released on SENS	Monday, 30 November

1. Shareholders entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, speak and vote thereat in their stead. A proxy need not be a member of the company. A form of proxy, in which are set out the relevant instructions for its completion, is enclosed for the use of a certificated shareholder or own-name registered dematerialised shareholder who wishes to be represented at the annual general meeting. Completion of a form of proxy will not preclude such shareholder from attending and voting (in preference to that shareholder's proxy) at the annual general meeting.

2. The instrument appointing a proxy and the authority (if any) under which it is signed must preferably reach the company's transfer secretaries at the address given below by 10:00 on Thursday, 26 November 2020. It can also be given to the chairman of the annual general meeting up to the commencement of the annual general meeting.

3. Dematerialised shareholders, other than own-name registered dematerialised shareholders, who wish to attend the annual general meeting in person will need to request their central securities depository participant (CSDP) or broker to provide them with the necessary letter of representation in terms of the custody agreement entered into between such shareholders and the CSDP or broker.

4. Dematerialised shareholders, other than own-name registered dematerialised shareholders, who are unable to attend the annual general meeting and who wish to be represented thereat, must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between them and the CSDP or broker in the manner and time stipulated therein.

5. Shareholders present in person, by proxy or by authorised representative shall, on a show of hands, have one vote each and, on a poll, will have one vote in respect of each share held.

6. In terms of the Companies Act, any shareholder or proxy who intends to attend or participate at the annual general meeting must be able to present reasonably satisfactory identification at the meeting for such shareholder or proxy to attend and participate at the annual general meeting. A green bar-coded identification document or identity card issued by the South African Department of Home Affairs, a driver's licence or a valid passport will be accepted at the annual general meeting as sufficient identification.

AGENDA

1. Presentation and consideration of the annual financial statements of the Group, including the reports of the directors and the Audit and Risk Committee for the year ended 30 June 2020 as set out in the company's integrated annual report 2020 of which this annual general meeting notice forms part of.

2. To consider and, if deemed fit, approve, with or without modification, the following special and ordinary resolutions:

Note:

- For any of the ordinary resolutions number 1 to 9 and 11 to be adopted, more than 50% of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.
- For any of the special resolutions number 1 to 3 to be adopted, 75% or more of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.
- For ordinary resolution number 10 to be adopted, 75% or more of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof.

ORDINARY BUSINESS

1. Ordinary resolution number 1: Re-election of Vukile Mehana

"Resolved that Vukile Mehana, who retires by rotation in terms of the memorandum of incorporation of the company and, being eligible and offering himself for re-election, be and is hereby re-elected as director."

An abbreviated curriculum vitae in respect of Vukile Mehana may be viewed on page 83 of the integrated annual report of which this notice forms part.

The Remuneration and Nominations Committee has considered Vukile Mehana's past performance and contribution to the company and in, accordance with article 5.1.8 of the memorandum of incorporation of the company, recommends that Vukile Mehana is re-elected as a director of the company.

2. Ordinary resolution number 2: Re-election of Mdu Gama

"Resolved that Mdu Gama, who retires by rotation in terms of the memorandum of incorporation of the company and, being eligible and offering himself for re-election, be and is hereby re-elected as director."

An abbreviated curriculum vitae in respect of Mdu Gama may be viewed on page 82 of the integrated annual report of which this notice forms part.

The Remuneration and Nominations Committee has considered Mdu Gama's past performance and contribution to the company and in, accordance with article 5.1.8 of the memorandum of incorporation of the company, recommends that Mdu Gama is re-elected as a director of the company.

3. Ordinary resolution number 3: Re-election of David Kan

"Resolved that David Kan, who retires by rotation in terms of the memorandum of incorporation of the company and, being eligible and offering himself for re-election, be and is hereby re-elected as director."

An abbreviated curriculum vitae in respect of David Kan may be viewed on page 82 of the integrated annual report of which this notice forms part.

The Remuneration and Nominations Committee has considered David Kan's past performance and contribution to the company and in, accordance with article 5.1.8 of the memorandum of incorporation of the company, recommends that David Kan is re-elected as a director of the company.

Reason for ordinary resolutions number 1 to 3

The reason for ordinary resolutions number 1 to 3 is that article 5.1.8 of the memorandum of incorporation of the company and, to the extent applicable, the Companies Act, requires that a component of the directors rotate at the annual general meeting and, being eligible, may offer themselves for re-election as directors.

4. Ordinary resolution number 4: Confirmation of the appointment of the auditors

"Resolved that the appointment of BDO South Africa Inc. as independent auditors of the company for the ensuing year (the designated auditor being Vanessa de Villiers) on the recommendation of the company's Audit and Risk Committee be hereby ratified."

Reason for ordinary resolution number 4

The reason for ordinary resolution number 4 is that the company, being a public listed company, must have its financial results audited and such auditor must be appointed or reappointed each year at the annual general meeting of the company as required by the Companies Act.

NOTICE OF ANNUAL GENERAL MEETING continued

5. **Ordinary resolution number 5: Appointment of Lindani Dhlamini as a member and chairman to the Audit and Risk Committee**
   "Resolved that Lindani Dhlamini be elected a member and chairman of the Audit and Risk Committee, with effect from the conclusion of this annual general meeting in terms of section 94(2) of the Companies Act."

   An abbreviated curriculum vitae in respect of Lindani Dhlamini may be viewed on page 83 of the integrated annual report of which this notice forms part.

6. **Ordinary resolution number 6: Appointment of Ralph Patmore as a member to the Audit and Risk Committee**
   "Resolved that Ralph Patmore be elected a member of the Audit and Risk Committee, with effect from the conclusion of this annual general meeting in terms of section 94(2) of the Companies Act."

   An abbreviated curriculum vitae in respect of Ralph Patmore may be viewed on page 83 of the integrated annual report of which this notice forms part.

7. **Ordinary resolution number 7: Appointment of Mdu Gama as a member to the Audit and Risk Committee**
   "Resolved that Mdu Gama be elected a member of the Audit and Risk Committee, with effect from the conclusion of this annual general meeting in terms of section 94(2) of the Companies Act."

   An abbreviated curriculum vitae in respect of Mdu Gama may be viewed on page 82 of the integrated annual report of which this notice forms part.

   Reason for ordinary resolutions number 5 to 7
   The reason for ordinary resolutions number 5 to 7 (inclusive) is that the company, being a public listed company, must appoint an Audit Committee as prescribed by sections 66(2) and 94(2) of the Companies Act, which also requires that the members of such Audit Committee be appointed, or reappointed, as the case may be, at each annual general meeting of a company.

Ordinary resolution number 8: Endorsement of remuneration policy and implementation report

Ordinary resolution 8.1 "Resolved that the company's remuneration policy, as set out in the remuneration report on pages 98 to 101 of the integrated annual report of which this notice forms part, be and is hereby approved by way of a non-binding advisory vote of shareholders of the company in terms of King IV Report."

Ordinary resolution 8.2
"Resolved that the implementation report, as set out on pages 102 and 103 of the integrated annual report of which this notice forms part, be and is hereby endorsed as a non-binding advisory vote of shareholders of the company in terms of King IV Report."

Reason for ordinary resolutions number 8.1 and 8.2
The reason for ordinary resolutions number 8.1 and 8.2 is that King IV recommends that the remuneration policy of the company be endorsed through separate non-binding advisory votes by shareholders at the annual general meeting of a company. Failure to pass these resolutions will not have legal consequences relating to existing arrangements. However, the Board of directors of the company will take the outcome of the vote into consideration when assessing the company's remuneration policy and implementation report. Should these resolutions be voted against by 25% or more of the voting rights exercised, the Board will enter into an engagement process to ascertain the reasons for the dissenting votes and address legitimate and reasonable objections and concerns raised.

9. **Ordinary resolution number 9: Placing unissued shares under directors' control**
   "Resolved that the unissued shares in the company, limited to 5% of the number of shares in issue at 30 June 2020, be and are hereby placed under the control of the directors until the next annual general meeting and that they be and are hereby authorised to issue any such shares as they may deem fit, subject to the Companies Act, the memorandum of incorporation of the company, and the provisions of the Listings Requirements of the JSE Limited, save that the aforementioned 5% limitation shall not apply to any shares issued in terms of a rights offer."

Reason for ordinary resolution number 9

The reason for ordinary resolution number 9 is that the Board requires authority from shareholders in terms of article 3 of its memorandum of incorporation to issue shares in the company. This general authority, once granted, allows the Board from time to time, when it is appropriate to do so, to issue ordinary shares as may be required inter alia in terms of capital raising exercises, and to maintain a healthy capital adequacy ratio that may be required from time to time. This general authority is subject to the restriction that it is limited to 5% of the number of shares in issue at 30 June 2020 on the terms and further restrictions more fully set out in ordinary resolution number 10 below.

10. Ordinary resolution number 10: General authority to issue shares for cash

"Resolved that the directors of the company be and are hereby authorised by way of a general authority, to allot and issue any of its unissued shares for cash placed under their control as they in their discretion may deem fit, without restriction, subject to the provisions of the Listings Requirements of the JSE, and subject to the provision that the aggregate number of ordinary shares able to be allotted and issued in terms of this resolution, shall be limited to 5% (3 500 000 shares) of the issued share capital at 30 June 2020, provided that:

- the approval shall be valid until the date of the next annual general meeting of the company, provided it shall not extend beyond 15 months from the date of this resolution
- a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published after any issue representing, on a cumulative basis within any one financial year, 5% or more of the number of shares in issue prior to such issue
- the general issues of shares for cash in the aggregate in any one financial year may not exceed 5% of the company's issued share capital of that class. For purposes of determining whether the aforementioned 5% has been or will be reached, the securities of a particular class will be aggregated with the securities that are compulsorily convertible into securities of that class and, in the case of the issue of compulsorily convertible securities, aggregated with the securities of that class into which they are compulsorily convertible. The number of securities of a class which may be issued shall be based on the number of securities of that class in issue at the date of such application less any securities of the class issued during the current financial year, provided that any securities of that class to be issued pursuant to a rights issue (announced and irrevocable and underwritten) or acquisition (concluded up to the date of application) may be included as though they were securities in issue at the date of application.
- in determining the price at which an issue of shares will be made in terms of this authority the maximum discount permitted will be 10% of the weighted average traded price of such shares, as determined over the 30 trading days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities. The JSE should be consulted for a ruling if the securities have not traded in such 30 business day period
- any such issue will only be made to public shareholders as defined in paragraphs 4.25 to 4.27 of the Listings Requirements of the JSE and not to related parties
- any such issue will only be securities of a class already in issue or, if this is not the case, will be limited to such securities or rights that are convertible into a class already in issue."

The reason for ordinary resolution number 10

For listed entities wishing to issue shares, it is necessary for the Board not only to obtain the prior authority of the shareholders as may be required in terms of their memorandum of incorporation contemplated in ordinary resolution number 10 above but it is also necessary to obtain the prior authority of shareholders in accordance with the Listings Requirements of the JSE. The reason for this resolution is accordingly to obtain a general authority from shareholders to issue shares in compliance with the Listings Requirements of the JSE. The authority granted in terms of this resolution number 10 must accordingly be read together with authority granted in terms of ordinary resolution number 9 above and any exercise thereof will be subject to the conditions contained in ordinary resolution number 10.

Note: This resolution requires the approval of not less than 75% of the votes cast by shareholders present or represented by proxy and entitled to vote at this annual general meeting.

NOTICE OF ANNUAL GENERAL MEETING continued

11. **Ordinary resolution number 11: Authority to action**
"Resolved that any one director of the company and/or the company secretary is hereby authorised to do all such things and sign all such documents as deemed necessary to implement the ordinary and special resolutions as set out in this notice convening the annual general meeting at which these resolutions will be considered."

The reason for ordinary resolution number 11
The reason for ordinary resolution number 11 is to ensure that the resolutions voted favourably upon is duly implemented through the delegation of powers provided for in terms of clause 5.3 of the company's memorandum of incorporation.

SPECIAL BUSINESS

2.1 Special resolution number 1: Remuneration of non-executive directors

"Resolved that the remuneration payable to the non-executive directors be approved on the following basis with effect from this annual general meeting until the next annual general meeting held in 2021:

Category	Recommended remuneration
Board chairman	R425 500 annual retainer
Board member	R109 700 annual retainer
	R16 250 per meeting attended
Audit and Risk Committee	
Chairman	R87 700 annual retainer
	R20 550 per meeting attended
Member	R55 500 annual retainer
	R13 500 per meeting attended
Remuneration and Nominations Committee	
Chairman	R64 700 annual retainer
	R19 050 per meeting attended
Member	R48 050 annual retainer
	R12 750 per meeting attended
Employment Equity and Skills Development Committee	
Chairman	R32 250 annual retainer
Member	R18 300 annual retainer
Social and Ethics Committee	
Chairman	R28 100 annual retainer
	R10 450 per meeting attended
Member	R11 690 annual retainer
	R5 040 per meeting attended

Reasons for and effect of special resolution number 1
The reason for the proposed special resolution is to comply with section 66(9) of the Companies Act, which requires the approval of directors' fees prior to the payment of such fees.

The effect of special resolution number 1 is that the company will be able to pay its non-executive directors for the services they render to the company as directors without requiring further shareholder approval until the next annual general meeting.

2.2 Special resolution number 2: Financial assistance to related and inter-related companies

"Resolved that the Board of directors of the Group be and is hereby authorised in terms of section 45(3)(a)(ii) of the Companies Act, as a general approval (which approval will be in place for a period of two years from the date of adoption of this special resolution number 2), to authorise the Group to provide any direct or indirect financial assistance ("financial assistance" will herein have the meaning attributed to such term in section 45(1) of the Companies Act) that the Board may deem fit to any related or inter-related company of the Group (related and inter-related will herein have the meanings attributed to those terms in section 2 of the Companies Act), on the terms and conditions and for the amounts that the Board of directors may determine."

Reason for and effect of special resolution number 2
The reason for and the effect of special resolution number 2 is to provide a general authority to the Board of directors of the Group for the Group to grant direct or indirect financial assistance to any company forming part of the Group, including in the form of loans or the guaranteeing of their debts.

2.3 Special resolution number 3: Authority to repurchase shares by the company

"Resolved as a special resolution that the company and its subsidiaries be and are hereby authorised, as a general approval, to repurchase any of the shares issued by the company, upon such terms and conditions and in such amounts as the directors may from time to time determine, but subject to the provisions of sections 46 and 48 of the Companies Act, the memorandum of incorporation of the company, the Listings Requirements of the JSE and the requirements of any other stock exchange on which the shares of the company may be quoted or listed, namely that:

- the general repurchase of the shares may only be implemented on the open market of the JSE and done without any prior understanding or arrangement between the company and the counterparty
- this general authority shall only be valid until the next annual general meeting of the company, provided that it shall not extend beyond 15 months from the date of this resolution
- an announcement must be published as soon as the company has acquired shares constituting, on a cumulative basis, 3% of the number of shares in issue prior to the acquisition, pursuant to which the aforesaid 3% threshold is reached, containing full details thereof, as well as for each 3% in aggregate of the initial number of shares acquired thereafter
- the general authority to repurchase is limited to a maximum of 20% in the aggregate in any one financial year of the company's issued share capital at the time the authority is granted
- a resolution has been passed by the Board of directors approving the purchase, that the company has satisfied the solvency and liquidity test as defined in the Companies Act and that since the solvency and liquidity test was applied there have been no material changes to the financial position or required shareholder spread of the Group
- the general repurchase is authorised by the company's memorandum of incorporation
- repurchases must not be made at a price more than 10% above the weighted average of the market value of the shares for five business days immediately preceding the date that the transaction is effected. The JSE should be consulted for a ruling if the applicant's securities have not traded in such five business day period
- the company may at any point in time only appoint one agent to effect any repurchase(s) on the company's behalf
- the company and its subsidiaries may not effect a repurchase during any prohibited period as defined in terms of the Listings Requirements of the JSE unless there is a repurchase programme in place as contemplated in terms of 5.72(g) of the Listings Requirements of the JSE."

Reason and effect of special resolution number 3

The reason for and effect of special resolution number 3 is to grant the directors a general authority in terms of its memorandum of incorporation and the Listings Requirements of the JSE for the acquisition by the company and/or its subsidiaries of shares issued by it on the basis reflected in the special resolution.

In terms of the Listings Requirements of the JSE any general repurchase by the company and/or its subsidiaries must, inter alia, be limited to a maximum of 20% of the company's issued share capital in any one financial year of that class at the time the authority is granted.

OTHER BUSINESS

To transact such other business as may be transacted at an annual general meeting or raised by shareholders with or without advance notice to the company.

INFORMATION RELATING TO THE SPECIAL RESOLUTIONS

1. The directors of the company or its subsidiaries will only utilise the general authority to purchase shares of the company and/or the subsidiary as set out in special resolution number 3 to the extent that the directors, after considering the maximum shares to be purchased, are of the opinion that the Group position would not be compromised as to the following:
   - the Group's ability in the ordinary course of business to pay its debts for a period of 12 months after the date of this annual general meeting and for a period of 12 months after the purchase
   - the consolidated assets of the Group will at the time of the annual general meeting and at the time of making such determination be in excess of the consolidated liabilities of the Group. The assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited annual financial statements of the Group
   - the ordinary capital and reserves of the Group after the purchase will remain adequate for the purpose of the business of the Group for a period of 12 months after the annual general meeting and after the date of the share purchase
   - the working capital available to the Group after the purchase will be sufficient for the Group's requirements for a period of 12 months after the date of the share repurchases and the directors have passed a resolution authorising the repurchase, resolving that the company has satisfied the solvency and liquidity test as defined in the Companies Act and resolving that since the solvency and liquidity test had been applied, there have been no material changes to the financial position of the Group.

NOTICE OF ANNUAL GENERAL MEETING continued

2. For the purposes of considering special resolution number 3, and in compliance with paragraph 11.26 of the Listings Requirements, the information listed below has been included in the integrated annual report, in which this notice of annual general meeting is included, at the places indicated:
   - Directors and management (pages 82 and 83)
   - Major shareholders (page 125)
   - Directors' interests in securities (page 189)
   - Share capital of the company (page 174)
   - Contingent liabilities (page 184)
   - Responsibility statement (page 110)
   - Material changes (page 110).

3. For purposes of special resolution number 2, the Board will only utilise the general authority bestowed upon them to provide direct or indirect financial assistance related to inter-related companies to the extent that the directors, after considering the amount of financial assistance to be granted, are of the opinion that:
   - immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test (as defined in the Companies Act
   - the terms under which the financial assistance is proposed to be given are fair and reasonable to the company
   - all conditions or restrictions regarding the granting of financial assistance as set out in the company's memorandum of incorporation have been satisfied and that the Board of directors have passed a resolution authorising the grant of the said financial assistance (the Board resolution) under their general authority so granted, the company which will then provide written notice of the Board resolution to all shareholders
   - within 10 days after adoption of the Board resolution, if the total value of all loans, debts, obligations or assistance contemplated in that resolution, together with any previous such resolution(s) during the financial year, exceeds one-tenth of 1% of the company's net worth at the time of the Board resolution
   - within 30 business days after the end of the financial year, in any other case.

4. The company is not involved in any legal or arbitration proceedings, nor are any proceedings pending or threatened of which the company is aware that may have or have had in the previous 12 months, a material effect on the company's financial position.

5. The directors, whose names are reflected in this integrated annual report of which this notice forms part, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts that have been made and that the notice contains all information required by law and the Listings Requirements of the JSE.

6. Other than the facts and developments reported on in the integrated annual report, there have been no material changes in the financial or trading position of the company and its subsidiaries since the date of signature of the audit report up to the date of this annual general meeting notice.

By order of the Board

S van Schalkwyk
Company secretary
30 October 2020

FORM OF PROXY

MUSTEK LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1987/070161/06)
Share code: MST ISIN: ZAE000012373
(Mustek or the company or the Group)

Note: All beneficial shareholders that have dematerialised their shares through a CSDP or broker, other than those which are in "own-name", must not complete this form.

Certificated shareholders and/or dematerialised shareholders with "own-name" registration must either provide their CSDP or broker with their voting instructions, or alternatively, should they wish to attend the annual general meeting in person, they should request the CSDP or broker to provide them with a letter of representation in terms of the custody agreement entered into between themselves and the CSDP or broker.

For use by Mustek shareholders at an annual general meeting held at Mustek Limited's head office at 322 15th Road, Randjespark, Midrand, or to participate electronically, on Monday, 30 November 2020 at 10:00 (the annual general meeting).

I/We (please print name in full)

of (address)

being a shareholder/s of Mustek Limited, holding shares in the company hereby appoint:

1. or, failing him/her,

2. or, failing him/her,

3. the chairman of the annual general meeting,
as my proxy to vote for me/us and on my/our behalf at the annual general meeting and at any adjournment thereof and to speak and act for me/us and, on a poll, vote on my/our behalf.

My/our proxy shall vote as follows:

	Number of shares		
	In favour of	Against	Abstain
To consider the presentation of the annual financial statements for the year ended 30 June 2020			
Ordinary resolution number 1: To re-elect Vukile Mehana as director			
Ordinary resolution number 2: To re-elect Mdu Gama as director			
Ordinary resolution number 3: To re-elect David Kan as director			
Ordinary resolution number 4: Confirmation of auditor's appointment			
Ordinary resolution number 5: Appointment of Lindani Dhlamini to Audit and Risk Committee			
Ordinary resolution number 6: Appointment of Ralph Patmore to Audit and Risk Committee			
Ordinary resolution number 7: Appointment of Mdu Gama to Audit and Risk Committee			
Ordinary resolution number 8:			
8.1 Endorsement of remuneration policy			
8.2 Endorsement of the implementation report			
Ordinary resolution number 9: Placing of shares under the directors' control			
Ordinary resolution number 10: General authority to issue shares for cash			
Ordinary resolution number 11: Authority to action			
Special resolution number 1: Remuneration of non-executive directors			
Special resolution number 2: Financial assistance to related and inter-related companies			
Special resolution number 3: General authority to the company and its subsidiaries to repurchase shares			

(indicate instruction to proxy by way of a cross in the space provided above)

Unless otherwise instructed, my/our proxy may vote as he/she thinks fit.

Signed this day of 2020

Signature

Please read the notes on the reverse side hereof.

NOTES TO THE FORM OF PROXY

1. Shareholders' instructions to the proxy must be indicated in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or abstain from voting at the annual general meeting as he/she deems fit. A shareholder may instruct the proxy to vote less than the total number of shares held by inserting the relevant number of shares in the appropriate box provided. A shareholder who fails to do so will be deemed to have authorised the proxy to vote or abstain from voting, as the case may be, in respect of all the shareholders' votes exercisable at the annual general meeting.

2. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity (eg for a company, close corporation, trust, pension fund, deceased estate) must be attached to this form of proxy.

3. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

4. A minor must be assisted by the minor's parent or guardian unless the relevant documents establishing the minor's legal capacity are produced or have been registered by the share registrars of the company.

5. The chairman of the annual general meeting may accept any form of proxy which is completed other than in accordance with these notes if the chairman of the annual general meeting is satisfied as to the manner in which the shareholder wishes to vote.

   Summary in term of section 58(8)(B)(i) of the Companies Act.

Section 58(8)(b)(i) provides that if a company supplies a form of instrument for appointing a proxy, the form of proxy supplied by the company for the purpose of appointing a proxy must bear a reasonably prominent summary of the rights established by section 58 of the Companies Act, 2008, which summary is set out below:

A shareholder of a company may, at any time, appoint any individual, including an individual who is not a shareholder of that company, as a proxy, among other things, to participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder.

- A shareholder may appoint two or more persons concurrently as proxies and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder.
- A proxy may delegate the proxy's authority to act on behalf of the shareholder to another person.
- A proxy appointment must be in writing, dated and signed by the shareholder; and remains valid only until the end of the meeting at which it was intended to be used, unless the proxy appointment is revoked, in which case the proxy appointment will be cancelled with effect from such revocation.
- A shareholder may revoke a proxy appointment in writing.
- A proxy appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder.
- A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction.

ELECTRONIC PARTICIPATION APPLICATION FORM

MUSTEK LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1987/070161/06)
Share code: MST ISIN: ZAE000012373
(Mustek or the company or the Group)

Instructions

Shareholders or their proxies, have the right, as provided for in the company's memorandum of incorporation and the Companies Act, to participate in the annual general meeting by way of electronic communication.

Shareholders or their duly appointed proxies who wish to participate in the annual general meeting must complete this application form and email it (together with the relevant supporting documents referred to below) to the company's transfer secretaries at proxy@computershare.co.za and to the company at sirkien@juba.co.za as soon as possible, but in any event by no later than 10:00 on Thursday, 26 November 2020.

Upon receiving a completed electronic participation application form, the company's transfer secretaries will follow a verification process to verify each applicant's entitlement to participate in and/or vote at the annual general meeting. The company's transfer secretaries will provide the company with the email address of each verified shareholder or their duly appointed proxy (each, "a participant") to enable the company to forward the participant a Microsoft Teams meeting invitation required to access the annual general meeting.

Mustek will send each participant a Microsoft Teams meeting invitation with a link to "Join the Microsoft Teams meeting" on Monday, 30 November 2020 to enable participants to link up and participate electronically in the annual general meeting. This link will be sent to the email address nominated by the participant in the table below.

Please note:

The electronic platform to be utilised for the annual general meeting does not provide for electronic voting during the meeting. Accordingly, shareholders are strongly encouraged to submit votes by proxy in advance of the annual general meeting, by completing the form of proxy and lodging the completed proxy form together with this electronic participation application form with the company's transfer secretaries.

Participants who indicate in this form that they wish to vote during the electronic meeting, will be contacted by the company's transfer secretaries to make the necessary arrangements.

Participants will be liable for their own network charges in relation to electronic participation in and/or voting at the annual general meeting. Any such charges will not be for the account of the company's transfer secretaries or Mustek who will also not be held accountable in the case of loss of network connectivity or other network failure due to insufficient airtime, internet connectivity, internet bandwidth and/or power outages which prevents any such participant from participating in and/or voting at the annual general meeting.

By signing this application form, the participant indemnifies and holds the company harmless against any loss, injury, damage, penalty or claim arising in any way from the use of the telecommunication lines to participate in the annual general meeting or any interruption in the ability of the participant to participate in the annual general meeting via electronic communication, whether or not the problem is caused by any act or omission on the part of the participant or anyone else, including without limitation the company and its employees.

ELECTRONIC PARTICIPATION APPLICATION FORM continued

Information required for participation by electronic communication at the annual general meeting:

Full name of shareholder: ____________________

Identity or registration number of shareholder: ____________________

Full name of authorised representative (if applicable): ____________________

Identity number of authorised representative: ____________________

Email address: ____________________

** Note: This email address will be used by the company to share the Microsoft Teams meeting invitation required to access the annual general meeting electronically.*

Cell phone number: ____________________

Telephone number, including dialling codes: ____________________

** Note: The electronic platform to be utilised for the annual general meeting does not provide for electronic voting during the meeting. Accordingly, shareholders are strongly encouraged to submit votes by proxy in advance of the annual general meeting, by completing the proxy form.*

Indicate (by marking with an 'X') whether:

☐ votes will be submitted by proxy (in which case, please enclose the duly completed proxy form with this form); or

☐ the participant wishes to exercise votes during the annual general meeting. If this option is selected, the company's transfer secretaries will contact you to make the necessary arrangements.

By signing this application form, I consent to the processing of my personal information above for the purpose of participating in Mustek's annual general meeting.

Signed this ____________________ day of ____________________ 2020

Signature ____________________

Documents required to be attached to this application form

1. In order to exercise their voting rights at the annual general meeting, shareholders who choose to participate electronically may appoint a proxy, which proxy may participate in the annual general meeting, provided that a duly completed proxy form has been submitted in accordance with the instructions on that form, and as envisaged in the notice of the annual general meeting.
2. Documentary evidence establishing the authority of the named person, including any person acting in a representative capacity, who is to participate in the annual general meeting, must be attached to this application.
3. A certified copy of the valid identity document/passport/of the person attending the annual general meeting by electronic participation, including any person acting in a representative capacity, must be attached to this application.

Applications to participate by electronic communication will only be considered if this application form is completed in full, signed by the shareholder, its proxy or representative, and delivered as detailed above. The company may in its sole discretion accept any incomplete application forms.

ANNUAL FINANCIAL STATEMENTS

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ANNUAL FINANCIAL STATEMENTS

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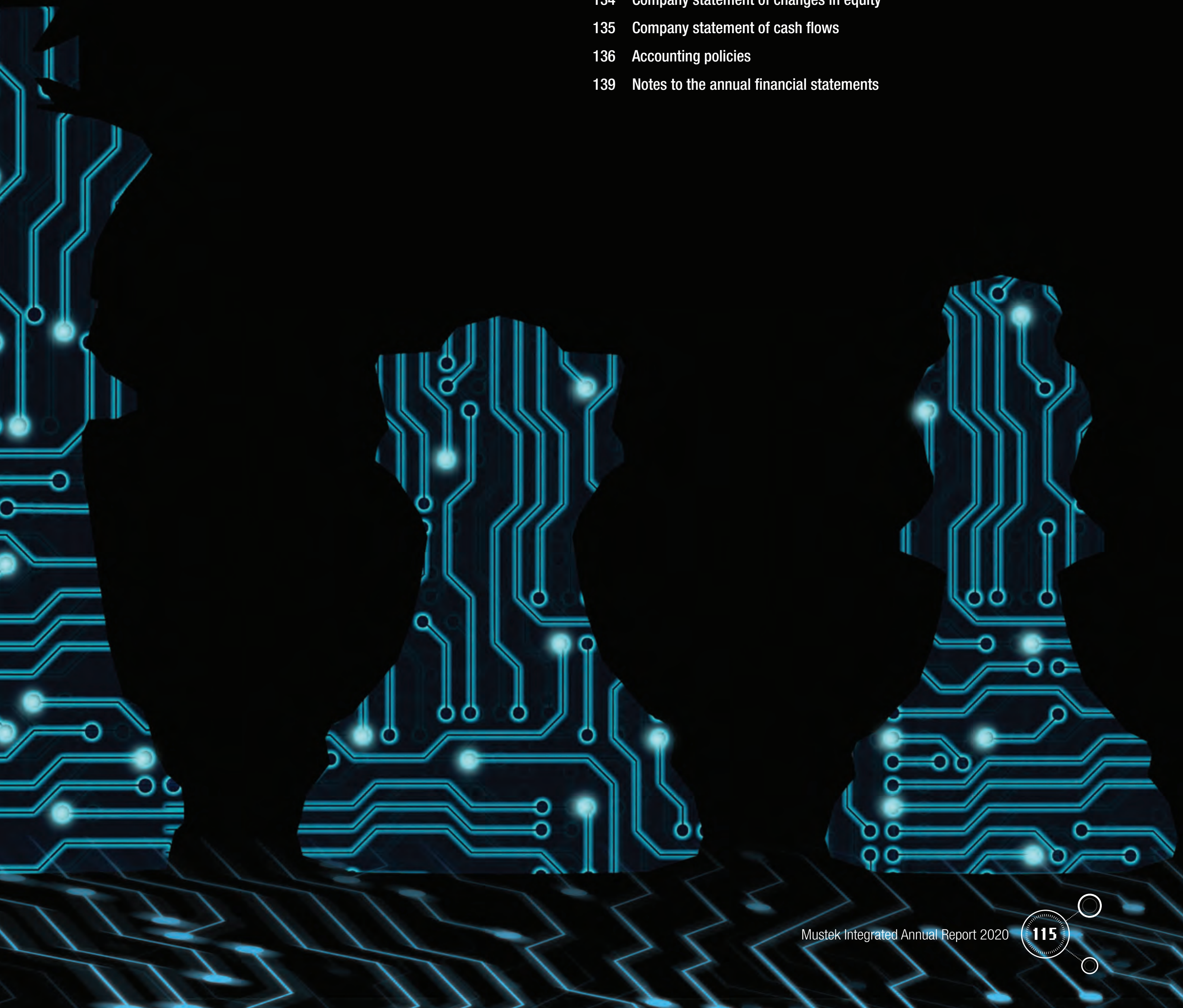

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

for the year ended 30 June 2020

The directors of the company are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The consolidated and separate financial statements are based on appropriate accounting policies supported by reasonable and prudent judgements, with estimates that have been consistently applied and have been prepared in accordance with International Financial Reporting Standards and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and in the manner required by the Companies Act of South Africa. The Group's independent external auditor, BDO South Africa Incorporated, have audited the consolidated and separate financial statements and their unmodified report appears on pages 117 to 120.

The directors are also responsible for the systems of internal control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The consolidated and separate annual financial statements are prepared on a going concern basis. Nothing has come to the attention of the directors to indicate that the Group and company will not remain a going concern for the foreseeable future.

The annual financial statements set out on pages 128 to 193 were approved by the Board of directors on 7 September 2020 and are signed on its behalf by:

Rev Dr VC Mehana
Chairman

DC Kan
Chief executive officer

CERTIFICATION BY COMPANY SECRETARY

for the year ended 30 June 2020

In terms of section 88(2)(e) of the Companies Act of South Africa (Act 71 of 2008), as amended (the Act), I certify that for the year ended 30 June 2020, Mustek Limited has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Act and that all such returns are true, correct and up to date.

S van Schalkwyk
Company secretary
7 September 2020

The annual financial statements have been prepared by Zaakira Gafoor (group accountant, CA(SA)), under supervision of Neels Coetzee (financial director, CA(SA)).

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2020

To the shareholders of Mustek Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Mustek Limited (the Group and company) set out on pages 128 to 193, which comprise the consolidated and separate statements of financial position as at 30 June 2020, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Mustek Limited as at 30 June 2020, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of consolidated and separate financial statements* section of our report. We are independent of the Group and company in accordance with the Independent Regulatory Board of Auditors' Code of *Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

BDO South Africa Incorporated
Registration number: 1995/002310/21
Practice number: 905526
VAT number: 4910148685

Chief Executive Officer: ME Stewart

A full list of all company directors is available on www.bdo.co.za.

The company's principal place of business is at The Wanderers Office Park, 52 Corlett Drive, Illovo, Johannesburg where a list of directors' names is available for inspection. BDO South Africa Incorporated, a South African personal liability company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

INDEPENDENT AUDITOR'S REPORT CONTINUED

for the year ended 30 June 2020

Key audit matter	How our audit addressed the key audit matter
Valuation of inventory (consolidated and separate financial statements)	
As disclosed in note 12 of the consolidated and separate financial statements, the Group and company carries inventory of R1.6 billion (2019: R1.4 billion) and R0.99 billion (2019: R0.94 billion) respectively. An allowance for inventory obsolescence amounting to R57.5 million (2019: R45 million) and R49.6 million (2019: R37 million) has been raised in the Group and company results respectively. The Group and company's inventory has a short lifespan as technology constantly evolves and products are continuously replaced by newer products in the market and are thus subject to obsolescence. Management assesses the net realisable value of each individual inventory item at year-end. The allowance for obsolescence is therefore subject to high levels of judgement and estimation uncertainty. As a result of the high levels of judgement and estimation uncertainty, the valuation of inventory is a key audit matter.	In evaluating the allowance for inventory obsolescence, we performed various audit procedures, including the following: • interacted with the previous auditor regarding opening balances and inspected their relevant audit working papers in this regard; • assessed the design and implementation of the Group and company's controls relating to the determination of the allowance; • performed year-on-year analytical comparisons on obsolescence levels and write-down rates; • obtained calculations for the allowance from management; • recalculated the arithmetical accuracy of the calculations; • obtained an understanding of the methodologies, assumptions and estimates used by management to calculate the allowance and evaluated the reasonableness thereof through comparison with the prior year allowance for consistency and our knowledge of industry norms; • using our BDO information technology experts, tested the accuracy of the ageing of inventory, as well as the sales rate of inventory on hand at year-end as these are the primary determinants of the need for the allowance; • obtained and corroborated management's explanations relating to a sample of inventory items for which a write-down to net realisable value was provided, and considered the reasonableness thereof; • obtained and corroborated management's explanations for a sample of inventory items where no allowance was provided, and considered the reasonableness thereof; • obtained and corroborated management's explanations for a sample of inventory items sold at a price less than cost and considered the adequacy of the write-down to net realisable value; and • assessed the related disclosures for inventory for compliance with IAS 2 Inventories.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Mustek Limited annual financial statements for the year ended 30 June 2020", which includes the directors' report, the Audit Committee's report and the company secretary's certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the integrated annual report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the company's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the company to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion

INDEPENDENT AUDITOR'S REPORT CONTINUED

for the year ended 30 June 2020

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that BDO South Africa Incorporated has been the auditor of Mustek Limited for one year.

BDO South Africa Inc.

BDO South Africa Incorporated
Registered Auditors

VR de Villiers
Director
Registered Auditor

7 September 2020

Wanderers Office Park
52 Corlett Drive
Illovo, 2196

AUDIT AND RISK COMMITTEE REPORT

Annual financial statements for the year ended 30 June 2020

The Audit and Risk Committee has pleasure in submitting this report, which has been approved by the Board and has been prepared in accordance with section 94(7)f of the Companies Act No 71 of 2008 (the Act) and incorporating the recommendations of the King IV™* Report on Corporate Governance for South Africa, 2016 (King IV).

In summary, this committee assists the Board in its responsibilities covering the:

- internal and external audit process for the Group taking into account the significant risks
- adequacy and functioning of the Group's internal controls
- integrity of the financial reporting
- risk management and information technology.

The committee has performed all the duties required in section 94(7) of the Companies Act 71 of 2008.

In reviewing the committee's composition during the year, it was decided that, due to the size of the company, the Audit Committee and Risk Committee would remain one committee and attend to both audit and risk responsibilities. However, the agenda is divided into two separate sections so as to ensure that both audit and risk management responsibilities are attended to.

Members of the Audit and Risk Committee and attendance at meetings

The Audit and Risk Committee consists of three independent non-executive directors listed below. The chief executive officer, managing director, financial director, partner of the external auditor and the internal auditor attend meetings by invitation and attended all meetings held during the reporting period. The Board is satisfied that the independence, experience and qualifications of each member enable them to fulfil the committee's mandate. In addition to scheduled meetings, the committee meets at least once a year with the company's internal and external auditors, without management being present.

Four meetings were held during the reporting period. The committee composition and meeting attendance are below:

Name	Position	Qualification	Experience	Meetings attended
Lindani Dhlamini	Independent chairman	BSc, CA(SA)	Over 20 years' experience as a chartered accountant	4/4
Mdu Gama	Independent member	BCom (Acc), MBA, PhD (Finance)	Over 30 years' experience in financial management	4/4
Ralph Patmore	Independent member	BCom, MBL, Stanford Executive Programme	Over 30 years' experience in management, strategy, mergers and acquisitions and accounting matters	4/4

The committee, as a whole, has the necessary financial literacy, skills and experience to execute their duties effectively.

Role of the Audit and Risk Committee

The Audit and Risk Committee reviewed its terms of reference, setting out its duties and responsibilities as prescribed in the Companies Act, King IV and incorporating additional duties delegated to it by the Board.

The committee:

- fulfils the duties that are assigned to it by the Companies Act and as governed by other legislative requirements
- assists the Board in overseeing the quality and integrity of the Group's integrated reporting process, including the financial statements and sustainability reporting, and announcements in respect of the financial results
- monitors that an effective control environment in the Group is maintained

AUDIT AND RISK COMMITTEE REPORT continued

- provides the financial director, external auditor and the head of internal audit with unrestricted access to the committee and its chairman as is required in relation to any matter falling within the ambit of the committee
- meets with the external auditor, senior managers and executive directors as the committee may elect
- meets confidentially with the internal and external auditors without other executive Board members and the company's financial director being present
- reviews and recommends to the Board the interim financial results and annual financial statements
- oversees the activities of, and ensures coordination between, the activities of the internal and external auditors
- fulfils the duties that are assigned to it by the Companies Act and as governed by other legislative requirements, including the statutory audit committee functions required for subsidiary companies
- receives and deals with any complaints concerning accounting practices, internal audit or the content and audit of its financial statements or related matters
- conduct annual reviews of the Audit and Risk Committee's work plan and terms of reference
- assesses the performance and effectiveness of the Audit and Risk Committee and its members on a regular basis
- reviewed the proactive monitoring process in terms of the letter from the JSE dated 18 February 2020, including Annexure 3
- considered the impact of COVID-19 on the financial results.

Execution of functions during the year

The committee is satisfied that, for the 2020 financial year, it has performed all the functions required to be performed by an Audit and Risk Committee as set out in the Companies Act, JSE Listings Requirements, King IV and the committee's terms of reference.

The Audit and Risk Committee discharged its functions in terms of its terms of reference and ascribed to it in terms of the Companies Act during the year under review as follows:

External audit

During the reporting period, BDO South Africa Inc. was appointed as external auditor in place of Deloitte effective 20 January 2020.

The committee among other matters:

- nominated BDO South Africa Inc. and Vanessa de Villiers as the external auditor and designated auditor respectively to shareholders for appointment as auditor for the financial year ending 30 June 2020, and ensured that the appointment complied with all applicable legal and regulatory requirements for the appointment of an auditor
- nominated the external auditor and the independent auditor for each material subsidiary company for reappointment
- requested from BDO South Africa Inc, the formal letter of their latest inspection performed by IRBA on the firm and Vanessa de Villiers, including any findings to the firm and/or individual in line with paragraph 22.15(h) of the JSE Listings Requirements
- reviewed the audit effectiveness and evaluated the external auditor's internal quality control procedures
- obtained an annual confirmation from the auditor that their independence was not impaired
- maintained a policy setting out the categories of non-audit services that the external auditor may and may not provide, split between permitted, permissible and prohibited services
- confirmed that no non-audit services were conducted by BDO South Africa Inc
- approved the external audit engagement letter, the plan and the budgeted audit fees payable to the external auditor
- obtained assurances from the external auditor that adequate accounting records were being maintained by the company and its subsidiaries
- considered whether any reportable irregularities were identified and reported by the external auditor in terms of the Auditing Profession Act, No 26 of 2005
- considered any reported control weaknesses, management's response for their improvement and assessed their impact on the general control environment.

Internal audit

During the reporting period, Phakisa Inc. advised that they would join BDO and presented this independence risk. After consideration, the committee decided to end the internal audit contract with Phakisa. Subsequently, Prozilog, represented by Everhard Carstens, was appointed as independent internal auditor effective 1 June 2020.

The committee:

- reviewed and approved the Internal Audit Charter and risk-based annual audit plan and evaluated the independence, effectiveness and performance of the internal audit and compliance with its charter
- noted that the head of internal audit function is not a member of the Executive Committee, but attend meetings by invitation from time to time
- considered the reports of the internal auditor on the Group's system of internal control including financial controls, business risk management and maintenance of effective internal control systems
- received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof
- reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to significant internal audit findings.

Adequacy and functioning of the Group's internal controls

The committee reviewed the plans and work outputs of the external and internal auditors and concluded that these were adequate to address all significant financial risks facing the business.

As noted above, it also reviewed the reporting around the adequacy of the internal controls and based on this concluded that there had been no material breakdowns in internal control, including financial controls, business risk management and maintenance of effective material control systems.

Financial reporting

The Audit and Risk Committee ensures that the financial reporting to stakeholders fairly presents the state of affairs of the Group. This covers the annual financial statements, integrated annual report, interim and preliminary reporting.

The committee among other matters:

- confirmed the going concern as the basis of preparation of the interim and annual financial statements, taking into consideration the impact of COVID-19
- reviewed compliance with the financial conditions of loan covenants and determined that the capital of the company was adequate
- examined and reviewed the interim and annual financial statements, as well as all financial information disclosed prior to the submission to the Board for their approval and then for disclosure to stakeholders
- overseen that the annual financial statements fairly present the financial position of the company and of the Group as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the company and the Group was determined to be a going concern
- considered the appropriateness of the accounting policies adopted and changes thereto
- reviewed the external auditor's audit report and key audit matters included
- reviewed the representation letter relating to the annual financial statements which was signed by management
- considered any problems identified and reviewed any significant legal and tax matters that could have a material impact on the financial statements
- considered accounting treatments, significant unusual transactions, and accounting judgements.

Significant areas of judgement

In arriving at the figures disclosed in the financial statements there are many areas where judgement is needed. These are outlined in the critical accounting estimates and judgements in the accounting policies to the annual financial statements. The Audit and Risk Committee has looked at the quantum of the assets and liabilities on the statements of financial position and other items that require significant judgement and decided to note the following:

- Inventory valuation in terms of obsolescence:
  The net realisable value of each individual inventory item is subject to high levels of judgement and estimation uncertainty
- Valuation of trade and other loan receivables (IFRS 9 Financial Instruments):
  Although calculations are being used, assumptions were still applied in the historical and forward looking variables of the calculations
- Goodwill impairment testing:
  High level of judgement is applied in assessing the impairment of goodwill.

AUDIT AND RISK COMMITTEE REPORT continued

The committee:
- oversaw the value delivery on IT and monitored the return on investments on significant IT projects
- monitored that intellectual property contained in information systems is protected
- monitored that adequate business arrangements are in place for disaster recovery
- monitored that all personal information is treated by the company as an important business asset and is identified
- reviewed and recommended to the Board for approval any policies proposed by management and relevant to the areas of responsibility of the committee.

Enterprise resource planning (ERP) system

The new ERP system was scheduled to be implemented during the financial year but due to unplanned impacts on the project, largely brought about by strained resources as a result of COVID-19, the implementation date had to be moved out. We foresee conclusion of this project in the 2021 financial year.

Legal and regulatory requirements

To the extent that these may have an impact on the annual financial statements, the committee:
- reviewed legal matters that could have a material impact on the Group
- reviewed the adequacy and effectiveness of the Group's procedures, including its risk management framework, to ensure compliance with legal and regulatory responsibilities
- monitored complaints received via the Group's whistle-blowing service
- considered reports provided by management, internal audit and the external auditors regarding compliance with legal and regulatory requirements.

Expertise and experience of financial director and the financial function

As required by 3.84(h) of the JSE Limited Listings Requirements, the committee has satisfied itself that the financial director, Neels Coetzee, has the appropriate expertise and experience. In addition, the committee satisfied itself that the composition, experience and skills set of the finance function met the Group's requirements.

Election of committee at the annual general meeting

Pursuant to the provisions of section 94(2) of the Companies Act, which required that a public company must elect an audit committee at each annual general meeting, it is proposed in the notice of annual general meeting to be held on 30 November 2020 that Lindani Dhlamini, Mdu Gama and Ralph Patmore be re-appointed as members of the Audit and Risk Committee until the next annual general meeting in 2021.

Assessment of the committee

The committee agreed to only conduct self-evaluations every second year. The committee evaluation and results will be included in the committee report in 2021.

Integrated annual report

Following the review by the committee of the consolidated annual financial statements of Mustek Limited for the year ended 30 June 2020, the committee is of the view that in all material aspects they comply with the relevant provisions of the Companies Act and International Financial Reporting Standards and fairly present the consolidated and separate financial positions at that date and the results of operations and cash flows for the year then ended. The committee has also satisfied itself of the integrity of the integrated annual report and the sustainability information reported therein to be posted to shareholders around October 2020.

Recommendation of the annual financial statements for approval by the Board

Having achieved its objectives, the committee has recommended the annual financial statements for the year ended 30 June 2020 for approval to the Board. The Board has subsequently approved the reports, which will be open for discussion at the forthcoming annual general meeting.

Lindani Dhlamini
Audit and Risk Committee chairman
7 September 2020

REPORT OF THE DIRECTORS

for the year ended 30 June 2020

Introduction

The directors have pleasure in presenting their report on the activities of the Group and company for the year ended 30 June 2020.

General review

Mustek Limited is a company incorporated in South Africa and listed on the JSE Limited and the Group's major activities comprise the procurement, assembly, distribution and servicing of computers, computer components and allied products. The Group's profit before taxation was R115.5 million (2019: R133.0 million).

Share capital

The authorised and issued share capital of the company is detailed in note 15 to the annual financial statements.

Directors

The directors in office at the date of this report were as follows:

Non-executive	Executive	Business address	Postal address
VC Mehana[3, 5] (Chairman)	DC Kan[5] (chief executive officer)	322 15th Road	PO Box 1638
ME Gama[1, 2, 3, 4, 5]	H Engelbrecht[4]	Randjespark	Parklands
LL Dhlamini[1, 2]	CJ Coetzee	Midrand	2121
RB Patmore[1, 2, 3, 4]		1685	

[1] Independent.
[2] Audit and Risk Committee member.
[3] Remuneration and Nomination Committee member.
[4] Social and Ethics Committee member.
[5] These directors are retiring in terms of the company's memorandum of incorporation. In terms of the statutes of the company, VC Mehana, ME Gama and DC Kan are available for re-election at the next annual general meeting.

Company secretary

S van Schalkwyk

Dividends

A final dividend of 30 cents per ordinary share was declared on 9 October 2019 and paid on 14 October 2019. During the previous financial year, a final dividend of 22 cents per ordinary share was declared on 26 September 2018 and paid on 1 October 2018.

Shareholders' spread

At 30 June 2020, insofar as is known, the following shareholders beneficially held more than 5% of the issued Mustek Limited shares:

Shareholding – ordinary shares in issue	Number of shares	% of shares in issue
Old Mutual Life Assurance Company SA Limited	15 033 171	21.5
DK Trust	9 532 442	13.6
	24 565 613	35.1

REPORT OF THE DIRECTORS CONTINUED

for the year ended 30 June 2020

2020

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	1 330	86.0	1 115 829	1.6
5 001 – 10 000	68	4.4	523 217	0.7
10 001 – 50 000	72	4.6	1 703 621	2.4
50 001 – 100 000	23	1.5	1 681 951	2.4
100 001 – 1 000 000	37	2.4	13 209 511	18.9
Over 1 000 000	17	1.1	51 765 871	74.0
	1 547	100.0	70 000 000	100.0

Public/non-public shareholders	Number of shareholders	%	Number of shares	% of shares in issue
Non-public shareholders				
Directors of the company	3	0.2	4 638 046	6.6
Companies controlled by directors	1	0.1	3 205 605	4.6
Trusts with directors as trustees	1	0.1	9 532 442	13.6
Public shareholders	1 542	99.6	52 623 907	75.2
	1 547	100.0	70 000 000	100.0

At 30 June 2019, insofar as is known, the following shareholders beneficially held more than 5% of the issued Mustek Limited shares:

Shareholding – ordinary shares in issue	Number of shares	% of shares in issue
Old Mutual Life Assurance Company SA Limited	15 033 171	21.5
DK Trust	9 032 442	12.9
	24 065 613	34.4

2019

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	1 143	82.9	1 265 822	1.8
5 001 – 10 000	84	6.1	643 487	0.9
10 001 – 50 000	77	5.6	1 878 241	2.7
50 001 – 100 000	16	1.2	1 245 433	1.8
100 001 – 1 000 000	41	3.0	15 737 949	22.5
Over 1 000 000	17	1.2	49 229 068	70.3
	1 378	100.0	70 000 000	100.0

Public/non-public shareholders	Number of shareholders	%	Number of shares	% of shares in issue
Non-public shareholders				
Directors of the company	3	0.2	4 680 969	6.7
Companies controlled by directors	1	0.1	2 592 970	3.7
Trusts with directors as trustees	1	0.1	9 032 442	12.9
Public shareholders	1 373	99.6	53 693 619	76.7
	1 378	100.0	70 000 000	100.0

Goodwill, other intangible assets, investments in and loans to subsidiaries, associates and other investments

The following matters are highlighted with regards to the investments in and loans to subsidiaries, associates and other investments (refer to notes 9, 10 and 11 to the annual financial statements for more information):

Yangtze Optics Africa Holdings Proprietary Limited

Yangtze Optics Africa Holdings Proprietary Limited (YOA) is located at the Dube Trade Port in Durban and Mustek is a 25.1% shareholder of YOA. The other shareholders are Yangtze Optical Fibre and Cable Joint Stock Limited Company and Yangtze Optical Fibre and Cable Company (Hong Kong) Limited, the world's largest manufacturers of optical fibre cables. YOA manufactured its first optic fibre cable during January 2017 and the Group's share of losses equity accounted in 2020 was R1.8 million (2019: R2.7 million). They continue to grow their revenue and management believes that the company will contribute profitably to the Group's bottom line during the 2021 financial year.

Loans to executive management

During previous financial years, Mustek Limited shares were issued to members of the executive management of Mustek Limited in terms of an executive share option scheme. The purchase of these shares was funded by means of a loan from the Mustek Executive Share Trust to the staff members in terms of the rules of the trust deed. The trust deed provides that the Board of directors determine the interest rate. Until 31 August 2017, interest was charged at the South African repo rate plus 1% where after the loans became interest free. As at year-end the balance on these loans were R47.1 million (2019: R46.8 million) and the loans have no fixed repayment terms. The balance on these loans are stated after impairment in terms of IFRS 9 Financial Instruments.

Legal disputes

Insurance settlement

One of Mustek's biggest debtors went into business rescue in the latter part of 2017 and an amount of R20 million was outstanding after receiving an insurance settlement from its credit insurer. The R20 million was secured with a guarantee that was disputed by the insurance company that issued the guarantee. On 29 July 2019, the High Court ruled in favour of the insurance company and the after-tax amount of R12.6 million was fully written off in the 30 June 2019 financial statements.

Following the above judgement, Mustek sought advice from new counsel and in January 2020 instituted action afresh (on a different legal basis) against the insurance company, the underwriting company and the individual involved in the transaction. Counsel believes there is good prospects of success in the matter.

COVID-19 claim

The Group has an assets all risks policy in place, covering the physical assets of the Mustek Group. The policy includes loss of gross profit following business interruption triggered by specified perils. The business interruption section has been extended to include a contagious disease extension limited to R10.0 million for Mustek and R5.0 million for Rectron. The Group's brokers believe that the extension has been triggered and have notified a claim to the underwriters who have acknowledged the claim and appointed a loss adjuster. The general market position to date is that insurers believe that the lockdown and the outbreak of the virus are two separate events. To date the claim has not been repudiated and we believe that insurers are awaiting the outcome of litigation that is presently underway which will provide clarity as to whether the policy will respond to this event. The Group has not accounted for any asset relating to these claims.

Apart from the aforementioned matters, the Group has no significant legal matters pending.

Special resolutions

During the current financial year, the following special resolutions were passed by the company's shareholders:

- The company and its subsidiaries are authorised, by way of a general authority, to acquire ordinary shares issued by the company, subject to the provisions of the Companies Act (Act 71 of 2008), as amended, the Listings Requirements of the JSE and the memorandum of incorporation of the company
- With effect from 28 November 2019, the remuneration payable to non-executive directors applicable for a period of 12 months
- In accordance with section 45 of the Companies Act, the provision of any financial assistance by the company to any company or corporation which is related or inter-related to the company (as defined in the Companies Act), on the terms and conditions which the directors of Mustek may determine.

Declaration of dividends

A gross dividend of 26 cents per ordinary share was declared as follows after the end of the financial year:

Last day of trade cum dividend	Tuesday, 6 October 2020
First day to trade ex dividend	Wednesday, 7 October 2020
Record date	Friday, 9 October 2020
Payment date	Monday, 12 October 2020

Post-statement of financial position events

There have been no significant events subsequent to year-end up until the date of this report that require adjustment to or disclosure in these annual financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2020

	Notes	2020 R000	2019 R000
Revenue	2	6 397 419	5 845 907
Cost of sales		(5 487 275)	(5 028 353)
Gross profit		910 144	817 554
Foreign currency losses	3	(56 768)	(19 880)
Distribution, administrative and other operating expenses		(600 405)	(573 374)
Impairment losses on trade receivables	13	(52 012)	(6 771)
Profit from operations	3	200 959	217 529
Investment revenues	4	4 536	8 035
Finance costs	5	(105 409)	(112 289)
Other impairment (losses) profit	11	(2 055)	70
Share of profit of associates	10	17 460	19 688
Profit before tax		115 491	133 033
Income tax expense	6	(27 441)	(26 498)
Profit for the year		88 050	106 535
Other comprehensive income (loss)			
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		6 878	(622)
Other comprehensive income (loss) for the year, net of tax		6 878	(622)
Total comprehensive income for the year		94 928	105 913
Profit attributable to:			
Equity holders of the parent		86 837	104 598
Non-controlling interest		1 213	1 937
		88 050	106 535
Total comprehensive income attributable to:			
Equity holders of the parent		93 715	103 976
Non-controlling interest		1 213	1 937
		94 928	105 913
Earnings per share (cents)	15		
Basic earnings per ordinary share		124.05	147.90
Diluted basic earnings per ordinary share		124.05	147.90

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2020

	Notes	2020 R000	2019 Re-presented R000
ASSETS			
Non-current assets			
Property, plant and equipment	7	187 939	184 981
Right-of-use assets	24	29 956	–
Goodwill	8	55 627	55 627
Intangible assets	8	71 205	53 167
Investments in associates	10	140 231	127 262
Other loans	11	55 627	56 514
Deferred tax assets	6	30 710	25 478
		571 295	503 029
Current assets			
Inventories*	12	1 609 086	1 393 392
Trade and other receivables	13	1 163 960	969 146
Tax assets		9 106	6 055
Contract assets	2	5 012	3 685
Foreign currency assets	18	5 063	297
Bank balances and cash	14	263 632	221 719
		3 055 859	2 594 294
TOTAL ASSETS		3 627 154	3 097 323
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	15	–	–
Retained earnings		1 109 124	1 043 287
Foreign currency translation reserve		9 535	2 657
Equity attributable to equity holders of the parent		1 118 659	1 045 944
Non-controlling interest		8 012	7 448
Total equity		1 126 671	1 053 392
Non-current liabilities			
Long-term borrowings	16	42 264	8 684
Lease liabilities	24	10 139	–
Deferred tax liabilities	6	6 213	8 103
Contract liabilities	2	17 686	17 514
		76 302	34 301
Current liabilities			
Trade and other payables	17	2 229 395	1 583 866
Tax liabilities		510	1 004
Foreign currency liabilities	18	21 529	9 823
Lease liabilities	24	23 670	–
Contract liabilities	2	30 245	21 449
Bank overdrafts	16	118 832	393 488
		2 424 181	2 009 630
Total liabilities		2 500 483	2 043 931
TOTAL EQUITY AND LIABILITIES		3 627 154	3 097 323

* *In the previous financial year, inventories and inventories in transit were presented in separate line items on the face of the statement of financial position. During the current financial year, inventories in transit are included as part of inventories.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2020

	Ordinary stated capital R000	Retained earnings R000	Foreign currency translation reserve R000	Attributable to equity holders of the parent R000	Non-controlling interest R000	Total R'000
Balance at 1 July 2018	–	975 870	3 279	979 149	8 879	988 028
Profit for the year	–	104 598	–	104 598	1 937	106 535
Other comprehensive loss	–	–	(622)	(622)	–	(622)
Dividends paid	–	(15 914)	–	(15 914)	(3 368)	(19 282)
Buyback of shares (refer note 15)	–	(21 267)	–	(21 267)	–	(21 267)
Balance at 30 June 2019	–	1 043 287	2 657	1 045 944	7 448	1 053 392
Profit for the year	**–**	**86 837**	**–**	**86 837**	**1 213**	**88 050**
Other comprehensive income	**–**	**–**	**6 878**	**6 878**	**–**	**6 878**
Dividends paid	**–**	**(21 000)**	**–**	**(21 000)**	**(649)**	**(21 649)**
Balance at 30 June 2020	**–**	**1 109 124**	**9 535**	**1 118 659**	**8 012**	**1 126 671**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2020

	Notes	2020 R000	2019 R000
OPERATING ACTIVITIES			
Cash receipts from customers		6 203 189	5 838 314
Cash paid to suppliers and employees		(5 703 207)	(5 854 606)
Net cash from (used in) operations	14	499 982	(16 292)
Investment revenues received	4	4 536	8 035
Finance costs paid	5	(105 409)	(112 289)
Dividends paid		(21 649)	(19 282)
Income taxes paid		(37 940)	(31 524)
Net cash from (used in) operating activities		339 520	(171 352)
INVESTING ACTIVITIES			
Additions to property, plant and equipment	7	(18 663)	(32 998)
Proceeds from sale of property, plant and equipment		148	17 545
Decrease in investments in and loans to associates	10	2 571	9 741
Increase in other loans	11	(461)	(1 386)
Decrease in other loans	11	1 213	3 750
Additions to intangible asset	8	(23 377)	(15 882)
Net cash used in investing activities		(38 569)	(19 230)
FINANCING ACTIVITIES			
Buyback of ordinary shares	15	–	(21 267)
Increase in long-term borrowings	16	40 000	–
Repayment of lease liabilities	16	(24 382)	–
Decrease in short-term borrowings		–	(640)
(Decrease) increase in bank overdrafts	16	(274 656)	138 832
Net cash (used in) from financing activities		(259 038)	116 925
Net increase (decrease) in cash and cash equivalents		41 913	(73 657)
Cash and cash equivalents at the beginning of the year		221 719	295 376
Cash and cash equivalents at the end of the year	14	263 632	221 719

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2020

	Notes	2020 R000	2019 R000
Revenue	2	4 425 778	3 822 445
Cost of sales		(3 812 279)	(3 284 840)
Gross profit		613 499	537 605
Other income		4 624	3 321
Foreign currency losses	3	(42 051)	(14 739)
Distribution, administrative and other operating expenses		(394 552)	(391 418)
Impairment losses on trade receivables	13	(29 701)	(7 867)
Profit from operations	3	151 819	126 902
Investment revenues	4	22 865	51 634
Finance costs	5	(74 480)	(77 237)
Other impairment (losses) gains on loan receivables	11	(8 751)	45
Profit before tax		91 453	101 344
Income tax expense	6	(19 330)	(11 688)
Profit for the year		72 123	89 656
Other comprehensive income, net of tax		–	–
Total comprehensive income for the year		72 123	89 656

COMPANY STATEMENT OF FINANCIAL POSITION

as at 30 June 2020

	Notes	2020 R000	2019 Re-presented R000
ASSETS			
Non-current assets			
Property, plant and equipment	7	30 562	33 259
Right-of-use assets	24	62 057	–
Intangible assets	8	35 858	29 646
Investments in subsidiaries	9	304 084	300 617
Investments in associates	10	37 305	37 344
Other loans	11	50 748	50 768
Deferred tax asset	6	24 089	17 555
		544 703	469 189
Current assets			
Inventories*	12	986 962	935 053
Trade and other receivables	13	900 889	690 014
Tax assets		6 111	5 381
Contract assets	2	4 833	3 516
Foreign currency assets	18	4 757	–
Bank balances and cash	14	117 895	125 202
		2 021 447	1 759 166
TOTAL ASSETS		2 566 150	2 228 355
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	15	–	–
Retained earnings		723 925	672 802
Total equity		723 925	672 802
Non-current liabilities			
Long-term borrowings	16	1 769	10 620
Lease liabilities	24	45 481	–
Contract liabilities	2	17 686	17 514
		64 936	28 134
Current liabilities			
Trade and other payables	17	1 500 979	1 042 476
Foreign currency liabilities	18	6 985	7 958
Lease liabilities	24	24 200	–
Loans owing to subsidiaries	9	105 009	62 281
Contract liabilities	2	21 284	21 224
Bank overdrafts	16	118 832	393 480
		1 777 289	1 527 419
Total liabilities		1 842 225	1 555 553
TOTAL EQUITY AND LIABILITIES		2 566 150	2 228 355

* *In the previous financial year, inventories and inventories in transit were presented in separate line items on the face of the statement of financial position. During the current financial year, inventories in transit are included as part of inventories.*

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2020

	Ordinary stated capital R000	Retained earnings R000	Total R000
Balance at 1 July 2018	–	620 327	620 327
Profit for the year	–	89 656	89 656
Dividends paid	–	(15 914)	(15 914)
Buyback of shares (refer note 15)	–	(21 267)	(21 267)
Balance at 30 June 2019	–	672 802	672 802
Profit for the year	**–**	**72 123**	**72 123**
Dividends paid	**–**	**(21 000)**	**(21 000)**
Balance at 30 June 2020	**–**	**723 925**	**723 925**

COMPANY STATEMENT OF CASH FLOWS

for the year ended 30 June 2020

	Notes	2020 R000	2019 R000
OPERATING ACTIVITIES			
Cash receipts from customers		4 214 903	3 832 586
Cash paid to suppliers and employees		(3 849 933)	(3 895 853)
Net cash from (used in) operations	14	364 970	(63 267)
Interest received	4	2 705	5 434
Finance costs paid	5	(74 480)	(77 237)
Dividends received	4	20 160	46 200
Dividends paid		(21 000)	(15 914)
Income taxes paid		(26 594)	(16 459)
Net cash from (used in) operating activities		265 761	(121 243)
INVESTING ACTIVITIES			
Additions to property, plant and equipment	7	(8 157)	(10 591)
Proceeds from sale of property, plant and equipment		148	45
Increase in loans to subsidiaries	9	(2 369)	(21 316)
Decrease in investments in and loans to associates	10	–	3 941
Additions to intangible assets	8	(8 558)	(13 990)
Increase in other loans	11	(191)	(189)
Decrease in other loans	11	210	790
Net cash used in investing activities		(18 917)	(41 310)
FINANCING ACTIVITIES			
Buyback of ordinary shares	15	–	(21 267)
Increase in loans from subsidiaries	16	42 728	–
Repayment of lease liabilities	16	(22 231)	–
(Decrease) increase in bank overdrafts	16	(274 648)	148 979
Net cash (used in) from financing activities		(254 151)	127 712
Net (decrease) increase in cash and cash equivalents		(7 307)	(34 841)
Cash and cash equivalents at the beginning of the year		125 202	160 043
Cash and cash equivalents at the end of the year	14	117 895	125 202

ACCOUNTING POLICIES

for the year ended 30 June 2020

The consolidated and company annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Interpretations as issued by the IFRS Interpretations Committee (IFRIC), and comply with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the JSE Listings Requirements and the requirements of the South African Companies Act, No 71 of 2008.

The consolidated and company annual financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments (refer note 18). The principal accounting policies are set out in the related notes to the consolidated and company financial statements and are presented in South African Rand. These are consistent with the policies applied in the preparation of the annual financial statements for the financial year ended 30 June 2019, except for the adoption of new standards as noted below:

The following standard was adopted during the current financial year:

	Standard	Date issued by IASB	Effective for periods beginning on or after
IFRS 16	Leases	January 2016	1 January 2019

IFRS 16 Leases

The Group has adopted IFRS 16 from 1 July 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2019 has not been restated – ie it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

A. Definition of a lease

The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative standalone prices.

B. As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for leases – ie these leases are on-balance sheet.
The Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (eg IT equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The carrying amounts of right-of-use assets are as below.

	R000
Balance at 1 July 2019	49 641
Balance at 30 June 2020	**29 956**

The Group presents right-of-use assets as a separate class of assets in the statement of financial position.

i. Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

ii. Transition

Previously, the Group classified property and vehicle leases as operating leases under IAS 17.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at the amount equal to the lease liability adjusted for lease smoothing balances as at 30 June 2019.

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 July 2019 is 9.25%.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

C. Impacts on financial statements

i. Impacts on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below:

	R000
Right-of-use assets	49 642
Lease liabilities	53 291

Reconciliation between the operating lease commitments disclosed in the Group's 30 June 2019 annual financial statements and the amount of lease liabilities at 1 July 2019:

	R000
Operating lease commitment at 30 June 2019 as disclosed in the Group's consolidated financial statements	55 475
Discounted using the incremental borrowing rate at 1 July 2019	(2 184)
Lease liabilities recognised as at 1 July 2019	53 291

ii. Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised R29.9 million of right-of-use assets and R33.8 million of lease liabilities as at 30 June 2020.

Also, in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the 12 months ended 30 June 2020, the Group recognised R23.8 million of depreciation charges and R4.0 million of interest costs from these leases. Lease payments of R28.4 million would have been expensed under IAS 17.

ACCOUNTING POLICIES continued

for the year ended 30 June 2020

At the date of authorisation of these financial statements, the following amendments to standards, relevant to the entity, were in issue but not yet effective:

	Standard	Effective for periods beginning on or after
IFRS 3	Business Combinations – Amendments to the definition of a business	1 January 2022
IAS 1	Presentation of Financial Statements – Classification of liabilities as current or non-current	1 January 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors – Clarify and align the definition of material	1 January 2020
IAS 16	Property, Plant and Equipment – Proceeds before intended use	1 January 2022
IAS 37	Provisions, Contingent Liabilities and Contingent Assets – Onerous contracts – fulfilling a contract	1 January 2022

The directors intend to adopt these amendments to the standard during the first financial year in which the standard becomes effective.

The directors are of the opinion that the impact of the implementation of the above mentioned amendments are unlikely to have a material effect.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting estimates and judgements

The following are the critical judgements, and estimates, that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements are listed below and described in more detail in each of the corresponding notes:

- Allowance for slow-moving, damaged and obsolete inventory (refer note 12)
- Expected credit loss allowances for trade receivables (refer note 13)
- Goodwill impairment assessment (refer note 8)
- Investment in associates impairment assessment (refer note 10)
- Determination of lease term for certain lease contracts in which the Group is a lessee (refer note 24).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2020

1. SEGMENTAL REPORTING

Business segments

The Group determines operating segments based on the manner in which information is provided internally to the key decision-makers, being executive management and the Board of directors.

For management purposes, the Group is currently organised into the following segments and these segments are the basis on which the Group reports its primary segment information:

Mustek Assembly and distribution of computer products and peripherals, including Mecer-branded products and related services. This includes all other operations not disclosed as separate segments.

Rectron Distribution of computer components and peripherals.

Group Includes investments in associates and other investments and loans. Refer to notes 10 and 11 for more information about their activities.

	Mustek R000	Rectron R000	Group R000	Elimination R000	Total R000
2020					
REVENUE					
External sales	4 456 573	1 940 846	–	–	6 397 419
Intersegment sales**	31 569	213 264	–	(244 833)	–
Total revenue from continuing operations	4 488 142	2 154 110	–	(244 833)	6 397 419
SEGMENT RESULTS					
EBITDA*	200 604	57 628	(10 995)	–	247 237
Depreciation and amortisation	(35 136)	(11 142)	–	–	(46 278)
Profit (loss) from operations	165 468	46 486	(10 995)	–	200 959
Investment revenues	2 332	2 486	(282)	–	4 536
Finance costs	(70 378)	(35 031)	–	–	(105 409)
Other losses	–	–	(2 055)	–	(2 055)
Share of associates' net profit (refer note 10)	–	–	17 460	–	17 460
Profit before tax	97 422	13 941	4 128	–	115 491
Income tax expense	(27 281)	(3 318)	3 158	–	(27 441)
Profit for the year	70 141	10 623	7 286	–	88 050
Attributable to:					
Owners of the parent	70 141	9 410	7 286	–	86 837
Non-controlling interest	–	1 213	–	–	1 213
	70 141	10 623	7 286	–	88 050

	Mustek R000	Rectron R000	Group R000	Elimination R000	Total R000
2019					
REVENUE					
External sales	3 793 275	2 052 632	–	–	5 845 907
Intersegment sales**	69 765	226 344	–	(296 109)	–
Total revenue from continuing operations	3 863 040	2 278 976	–	(296 109)	5 845 907
SEGMENT RESULTS					
EBITDA*	185 184	83 824	(25 807)	–	243 201
Depreciation and amortisation	(17 979)	(7 693)	–	–	(25 672)
Profit (loss) from operations	167 205	76 131	(25 807)	–	217 529
Investment revenues	8 946	3 160	733	(4 804)	8 035
Finance costs	(77 368)	(34 921)	(4 804)	4 804	(112 289)
Other profits	–	–	70	–	70
Share of associates' net profit (refer note 10)	–	–	19 688	–	19 688
Profit (loss) before tax	98 783	44 370	(10 120)	–	133 033
Income tax expense	(22 147)	(11 372)	7 021	–	(26 498)
Profit (loss) for the year	76 636	32 998	(3 099)	–	106 535
Attributable to:					
Owners of the parent	76 636	31 061	(3 099)	–	104 598
Non-controlling interest	–	1 937	–	–	1 937
	76 636	32 998	(3 099)	–	106 535

* *Earnings before interest, tax, depreciation and amortisation.*

** *Intersegment sales are charged at cost plus a mark up.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

1. SEGMENTAL REPORTING continued

Business segments continued

	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
2020					
OTHER INFORMATION					
Capital expenditure	7 983	34 223	–	–	42 206
ASSETS					
Segment assets	2 264 644	1 106 190	111 257	(4 274)	3 477 817
Investment in associates	–	–	140 231	–	140 231
Current tax assets	7 389	1 717	–	–	9 106
Consolidated total assets	2 272 033	1 107 907	251 488	(4 274)	3 627 154
LIABILITIES					
Segment liabilities	1 750 562	773 999	–	(24 588)	2 499 973
Current tax liabilities	510	–	–	–	510
Consolidated total liabilities	1 751 072	773 999	–	(24 588)	2 500 483
Number of employees at year-end	887	335	–	–	1 222

	Mustek R000	Rectron R000	Group R000	Eliminations R000	Total R000
2019					
OTHER INFORMATION					
Capital expenditure	43 808	5 173	–	–	48 981
ASSETS					
Segment assets	1 969 291	905 237	112 141	(22 663)	2 964 006
Investment in associates	–	–	127 262	–	127 262
Current tax assets	5 577	478	–	–	6 055
Consolidated total assets	1 974 868	905 715	239 403	(22 663)	3 097 323
LIABILITIES					
Segment liabilities	1 455 241	565 023	–	22 663	2 042 927
Current tax liabilities	1 004	–	–	–	1 004
Consolidated total liabilities	1 456 245	565 023	–	22 663	2 043 931
Number of employees at year-end	663	335	–	–	998

1. SEGMENTAL REPORTING continued

Geographical segments

	East Africa R000	Taiwan R000	South Africa R000	Total R000
2020				
Revenue	37 250	1 423	6 358 746	6 397 419
Profit before tax	(1 352)	2 974	113 869	115 491
Income tax expense	(1 406)	(1 632)	(24 403)	(27 441)
Profit for the year	(2 758)	1 342	89 466	88 050
Attributable to:				
Owners of the parent	(2 758)	1 342	88 253	86 837
Non-controlling interest	–	–	1 213	1 213
	(2 758)	1 342	89 466	88 050
OTHER INFORMATION				
Capital expenditure	425	–	41 781	42 206
Segment assets	55 932	13 651	3 548 465	3 618 048
Current tax assets	836	–	8 270	9 106
Consolidated total assets	56 768	13 651	3 556 735	3 627 154

	East Africa R000	Taiwan R000	South Africa R000	Total R000
2019				
Revenue	40 623	249	5 805 035	5 845 907
Profit before tax	1 280	3 700	128 053	133 033
Income tax benefit (expense)	(744)	(864)	(24 890)	(26 498)
Profit for the year	536	2 836	103 163	106 535
Attributable to:				
Owners of the parent	536	2 836	101 226	104 598
Non-controlling interest	–	–	1 937	1 937
	536	2 836	103 163	106 535
OTHER INFORMATION				
Capital expenditure	81	–	48 900	48 981
Segment assets	51 707	12 024	3 027 537	3 091 268
Current tax assets	–	196	5 859	6 055
Consolidated total assets	51 707	12 220	3 033 396	3 097 323

Refer note 13 for a quantification of the Group and company's reliance on its largest customers.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

2. REVENUE

Disaggregation of revenue

The Group has assessed that the disaggregation of revenue by customer segments is appropriate in meeting this disclosure requirement as this is the information regularly reviewed by the chief operating decision-maker (CODM) in order to evaluate the financial performance of the entity.

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	GROUP		COMPANY	
	2020 R000	2019 Restated* R000	2020 R000	2019 Restated* R000
Sales of goods (revenue earned at a point in time)	6 348 879	5 816 051	4 405 123	3 795 288
Hardware sales	6 103 890	5 553 675	4 298 335	3 702 045
Dealers	3 462 679	3 256 841	2 381 297	2 116 650
Retailers	1 095 084	992 797	435 596	334 498
Public sector supplies	1 331 861	1 112 899	1 331 861	1 112 899
Export	214 266	191 138	149 581	137 998
Software sales	244 989	262 376	106 788	93 243
Dealers	176 074	201 359	68 083	64 836
Retailers	34 087	35 069	4 330	6 581
Public sector supplies	33 102	20 638	33 102	20 638
Export	1 726	5 310	1 273	1 188
Rendering of services (revenue earned over time)	35 814	20 401	10 169	17 701
Maintenance and support contracts	11 520	23 198	10 947	21 257
Deferred revenue	(778)	(3 556)	(778)	(3 556)
Training courses	25 072	759	–	–
Rendering of services (revenue earned at a point in time)	12 726	9 455	10 486	9 456
Repair services	12 726	9 455	10 486	9 456
Total revenue	6 397 419	5 845 907	4 425 778	3 822 445

* *Repair services have been reclassified from "revenue earned over time" in the prior year, to "revenue earned at a point in time" in the current year to align with IFRS 15 principles.*

The Group has applied IFRS 15 which results in a single-comprehensive model of accounting for revenue arising from contracts.

Revenue is recognised using a five-step model as follows:
- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue is a combination of goods sold, additional warranties and service revenue. If maintenance and support services sold relate to a period of more than 12 months, that portion will be recognised as deferred revenue.

Sales of goods

Revenue is recognised when control of the products has transferred, being when the products are delivered to the customer. In most instances, the criteria for recognition of revenue are met when a proof of delivery document is signed. The receivable is recognised upon delivery or collection of goods.

The following applies to the sales of goods:
1. Revenue is based on the price specified on the contract
2. Discounts or rebates are in most instances applied upfront at the time of contract and the price discounted accordingly, except for certain customers where the discount is applied at the time of payment. Customers have long-standing discount and rebate arrangements and revenue is recognised net of these discounts and rebates. Variable consideration is determined upfront.
3. Credit terms are maximum 60 days from statement backed by an insurance element.
4. Our returns policy states 14 days from date of purchase but Consumer Protection Act dictates maximum of 30 days if all return criteria are met. A refund liability and corresponding adjustment to revenue is recognised for expected returns.
5. Warranties are included with the sale of all our goods. The warranty period will vary, dependent on the product sold.

2. REVENUE continued

Revenue from services

Revenue for services consists of revenue for the repair of equipment where no supplier warranty exists for the product, as well as service contracts sold alongside equipment and technical installation services on full solution type sales. Revenue for services are recognised at a point in time and revenue from service contracts are recognised over time.

Revenue from a contract to provide services is recognised over time, by reference to the stage of completion of the contract. Maintenance and support services are recognised over the period of the contract.

Mecer Inter-Ed provides training solutions in the form of vendor authorised ICT training courses as well as learnerships and skills programmes as an accredited training provider for various SETAs. Revenue is recognised over the period over which the relevant training course/programme is delivered.

Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Contract assets				
Opening balance	3 685	–	3 516	–
Revenue contracts from hardware sales	1 327	3 685	1 317	3 516
Closing balance	5 012	3 685	4 833	3 516
Contract liabilities: current				
Opening balance	21 449	13 817	21 224	13 817
Deferred revenue – maintenance contracts	119	1 831	119	1 831
Deferred revenue – training courses	8 961	–	–	–
Expected discounts and rebates	(804)	890	(804)	890
Expected refunds to customers	520	4 911	745	4 686
Closing balance	30 245	21 449	21 284	21 224
Contract liabilities: non-current				
Opening balance	17 514	15 788	17 514	15 788
Deferred revenue – maintenance contracts	172	1 726	172	1 726
Closing balance	17 686	17 514	17 686	17 514

Contract assets

This is an estimation of the inventory value for expected returns on hardware sales from customers within the return policy period. This estimation was based on historical trends.

Contract liabilities

Deferred income – arises as a result of various onsite service and maintenance contracts which are sold to customers together with certain products. The duration of these service and maintenance contracts varies between one and five years depending on the option the customer selected or the terms of the packages sold. Income is deferred according to the contract purchased.

The income is deferred and recognised as revenue on a straight-line basis over the duration of the underlying service or maintenance contract. The performance obligation is met proportionately after every month that passes.

R21.4 million of revenue included in the prior year balance of contract liabilities, has been recognised in the current year.

Discounts and rebates – this relates to the estimated discounts and rebates that the Group expects to grant to customers on sales made in the current financial year. This estimation was based on historical trends.

Refunds – this relates to the estimated refunds that the Group expects to credit customers on goods returned within the return policy period. This estimation was based on historical trends.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

3. PROFIT FROM OPERATIONS

	GROUP 2020 R000	GROUP 2019 R000	COMPANY 2020 R000	COMPANY 2019 R000
Profit from operations has been arrived at after taking the following items into account:				
Auditor's remuneration				
Audit fees	6 307	6 414	3 659	4 217
Fees for other services	383	306	184	80
	6 690	6 720	3 843	4 297
Depreciation of property, plant and equipment and right-of-use assets (refer notes 7 and 24)	40 908	18 316	35 606	12 261
(Loss) profit on disposal of property, plant and equipment and intangible assets	(811)	7 798	(419)	(32)
Amortisation of intangible assets (refer note 8)	5 370	7 356	2 346	4 281
Foreign exchange (losses) gains				
Realised	(58 028)	(26 732)	(52 745)	(21 439)
Unrealised	17 726	16 378	12 922	14 658
	(40 302)	(10 354)	(39 823)	(6 781)
Fair value adjustments				
Open forward exchange contracts (losses)	(16 466)	(9 526)	(2 228)	(7 958)
	(16 466)	(9 526)	(2 228)	(7 958)
Net foreign currency losses	(56 768)	(19 880)	(42 051)	(14 739)
Bad debts written off	25 453	27 488	13 788	25 974
Operating lease costs	–	31 633	–	30 286

4. INVESTMENT REVENUES

	GROUP 2020 R000	GROUP 2019 R000	COMPANY 2020 R000	COMPANY 2019 R000
Interest received on bank balances	4 536	8 035	1 905	4 715
Interest received from subsidiaries	–	–	800	719
Dividends from subsidiaries and associates	–	–	20 160	46 200
	4 536	8 035	22 865	51 634

Dividend and interest revenue

Dividend revenue from investments is recognised when:
- the entity's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the entity
- the amount of the dividend can be measured reliably.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

5. FINANCE COSTS

	GROUP 2020 R000	GROUP 2019 R000	COMPANY 2020 R000	COMPANY 2019 R000
Interest paid on bank overdrafts	32 521	35 420	37 516	41 715
Interest paid on letters of credit and trade finance	63 072	70 051	29 441	35 522
Interest paid on lease liabilities	3 988	–	7 523	–
Other interest paid	3	–	–	–
Interest on forward points	5 825	6 818	–	–
	105 409	112 289	74 480	77 237

6. TAXATION

Income tax expense

	GROUP 2020 R000	GROUP 2019 R000	COMPANY 2020 R000	COMPANY 2019 R000
South African normal tax	(24 334)	(25 285)	(19 330)	(12 134)
Foreign tax	(3 038)	(1 162)	–	446
Withholding tax	(69)	(51)	–	–
	(27 441)	(26 498)	(19 330)	(11 688)
Comprising:				
Normal current tax				
– Current year	(33 752)	(30 141)	(26 227)	(14 168)
– Prior year	(573)	539	363	651
Normal deferred tax				
– Current year	7 984	3 801	6 085	2 549
– Prior year	(1 030)	(646)	449	(720)
Withholding tax	(70)	(51)	–	–
Income tax expense for the year	(27 441)	(26 498)	(19 330)	(11 688)
The Group's tax expense relates to the following tax jurisdictions:				
South African Revenue Service	(24 403)	(24 891)	(19 330)	(11 688)
Kenya Revenue Authority	(1 406)	(744)	–	–
Revenue Service Office, New Taipei City Government	(1 632)	(864)	–	–
	(27 441)	(26 499)	(19 330)	(11 688)

Tax rate reconciliation

	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
Profit before tax	115 491	133 033	91 453	101 344
South African statutory rate of tax	28.0%	28.0%	28.0%	28.0%
Dividends received	0.0%	0.0%	(6.2%)	(12.8%)
Dividends tax	0.1%	0.0%	0.0%	0.0%
Current tax prior year underprovision	0.5%	(0.4%)	(0.4%)	(0.6%)
Deferred tax prior year overprovision	0.9%	0.5%	(0.5%)	0.7%
Foreign tax paid	0.0%	(0.4%)	0.0%	(0.4%)
Profits from associates already taxed	(4.2%)	(4.1%)	0.0%	0.0%
Income from learnership agreements exempt	(2.4%)	(4.1%)	(1.0%)	(3.8%)
Non-taxable income	0.0%	0.4%	0.0%	0.0%
Disallowed expenses	0.9%	0.0%	1.2%	0.4%
Effective tax rate	23.8%	19.9%	21.1%	11.5%

Income tax expense represents the sum of the tax currently payable and deferred tax.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

6. TAXATION continued

Deferred tax assets and liabilities

The tax effects of temporary differences of the company and subsidiary companies resulted in deferred tax assets and liabilities. The directors have assessed, based on budgeted expectation for future profits, that it is reasonable to assume that future taxable income will be sufficient to allow the tax benefits to be realised. The following are the major deferred tax liabilities and assets recognised at 28% (2019: 28%) except if otherwise indicated:

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Tax loss	5 298	8 098	–	–
Allowance for expected credit losses	8 982	6 067	9 271	3 909
Amortisation of intangible assets	5	(4 310)	5	7
Salary-related accruals	9 196	11 069	9 196	8 113
Accelerated wear and tear for tax purposes	(12 377)	(7 818)	(1 629)	(2 714)
Prepayments	(671)	(712)	(405)	(368)
Minor assets	5	8	5	8
Operating lease (assets) liabilities	(606)	1 084	(15)	1 261
Net lease liabilities	2 715	–	2 135	–
Accrual for commission	2 682	1 468	2 132	1 010
Other accruals	6 680	(485)	842	880
Unrealised exchange gains or losses	(8 467)	(5 017)	(7 160)	(4 414)
Deferred revenue	11 876	9 286	9 367	9 286
Unrealised capital gains	(958)	(2 081)	–	–
Unrealised fair value capital gain on investment	141	141	–	–
Contract assets and liabilities	(4)	577	345	577
	24 497	17 375	24 089	17 555
Deferred tax assets	30 710	25 478	24 089	17 555
Deferred tax liabilities	(6 213)	(8 103)	–	–
	24 497	17 375	24 089	17 555
The Group's deferred tax assets relates to the following geographical locations:				
South Africa	26 774	20 860	24 089	17 555
East Africa	3 936	4 618	–	–
Taiwan	–	–	–	–
	30 710	25 478	24 089	17 555

6. TAXATION continued

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Reconciliation between opening and closing balances				
Net deferred tax asset at the beginning of the year	17 375	13 025	17 555	14 518
Differences on taxable loss	(2 800)	586	–	–
Differences on allowance for expected credit losses	3 499	2 998	5 362	1 048
Differences on amortisation of intangible assets	4 315	(748)	(2)	(3)
Differences on salary-related accruals	(1 873)	2 720	1 083	1 288
Differences on accelerated wear and tear	(4 559)	(1 025)	1 085	(53)
Differences on prepayments	41	(98)	(37)	31
Differences on minor assets	(3)	(3)	(3)	(3)
Differences on operating lease assets/liabilities	(1 690)	109	(1 276)	172
Differences on net lease liability	2 715	–	2 135	–
Differences on provision for commission accrual	1 214	(1 167)	1 122	(348)
Differences on other accruals	7 165	(3 775)	(38)	(1 422)
Differences on unrealised exchange gains or losses	(4 202)	(559)	(2 746)	(454)
Differences on deferred revenue	2 590	996	81	996
Differences on unrealised capital gains	1 123	39	–	–
Differences on realised fair value capital gain on investment	–	2 505	–	–
Differences on contract assets and liabilities	(581)	577	(232)	577
	6 954	3 155	6 534	1 829
Deferred tax movement through the statement of comprehensive income – continuing operations	6 954	3 155	6 534	1 829
Deferred tax movement through equity	168	1 195	–	1 208
Foreign currency translation reserve	752	(286)	–	–
Prior year adjustment	(584)	(146)	–	–
IFRS 9 impairment (adjustment to retained earnings)	–	1 627	–	1 208
	24 497	17 375	24 089	17 555

The Group or company recognises deferred tax assets only when the future recovery of that asset is assessed to be highly likely.

No unrecognised deductible temporary differences, unused tax losses or unused tax credits existed in the Mustek Group in the current or prior financial year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

7. PROPERTY, PLANT AND EQUIPMENT

	Opening balance R000	Additions R000	Disposals R000	Exchange differences R000	Closing balance R000
GROUP – 2020					
Cost					
Land and buildings	113 483	759	–	2 330	116 572
Improvements to leased premises	55 138	1 364	–	109	56 611
Plant and machinery	63 004	2 578	(8)	139	65 713
Furniture, fixtures and office equipment	42 523	4 025	(1 946)	171	44 773
Computer equipment	57 924	7 483	(2 535)	347	63 219
Motor vehicles	16 246	2 454	(520)	92	18 272
	348 318	18 663	(5 009)	3 188	365 160

	Opening balance R000	Current year R000	Disposals R000	Exchange differences R000	Closing balance R000
Accumulated depreciation					
Land and buildings	4 658	479	–	220	5 357
Improvements to leased premises	36 376	1 488	–	109	37 973
Plant and machinery	42 554	1 758	(1)	109	44 420
Furniture, fixtures and office equipment	30 593	2 839	(1 788)	141	31 785
Computer equipment	41 916	6 923	(2 014)	309	47 134
Motor vehicles	7 240	3 668	(413)	57	10 552
	163 337	17 155	(4 216)	945	177 221

	Opening balance R000	Additions R000	Disposals R000	Closing balance R000
COMPANY – 2020				
Cost				
Land	784	–	–	784
Improvements to leased premises	18 431	151	–	18 582
Plant and machinery	27 156	930	–	28 086
Furniture, fixtures and office equipment	18 365	719	–	19 084
Computer equipment	43 128	4 243	(2 121)	45 250
Motor vehicles	15 094	2 114	(435)	16 773
	122 958	8 157	(2 556)	128 559

	Opening balance R000	Current year R000	Disposals R000	Closing balance R000
Accumulated depreciation				
Improvements to leased premises	17 001	744	–	17 745
Plant and machinery	20 844	1 058	–	21 902
Furniture, fixtures and office equipment	12 799	973	–	13 772
Computer equipment	32 740	3 958	(1 692)	35 006
Motor vehicles	6 315	3 554	(297)	9 572
	89 699	10 287	(1 989)	97 997

7. PROPERTY, PLANT AND EQUIPMENT continued

	Opening balance R000	Additions R000	Disposals R000	Exchange differences R000	Closing balance R000
GROUP – 2019					
Cost					
Land and buildings	101 379	11 963	–	141	113 483
Improvements to leased premises	54 201	934	–	3	55 138
Plant and machinery	60 922	2 074	–	8	63 004
Furniture, fixtures and office equipment	41 785	5 960	(5 232)	10	42 523
Computer equipment	75 081	11 240	(28 415)	18	57 924
Motor vehicles	15 569	827	(154)	4	16 246
	348 937	32 998	(33 801)	184	348 318

	Opening balance R000	Current year R000	Disposals R000	Exchange differences R000	Closing balance R000
Accumulated depreciation					
Land and buildings	4 208	448	–	2	4 658
Improvements to leased premises	34 762	1 611	–	3	36 376
Plant and machinery	39 140	3 408	–	6	42 554
Furniture, fixtures and office equipment	33 133	2 594	(5 142)	8	30 593
Computer equipment	60 550	9 607	(28 255)	14	41 916
Motor vehicles	6 666	648	(77)	3	7 240
	178 459	18 316	(33 474)	36	163 337

	Opening balance R000	Additions R000	Disposals R000	Closing balance R000
COMPANY – 2019				
Cost				
Land	784	–	–	784
Improvements to leased premises	17 947	484	–	18 431
Plant and machinery	26 653	503	–	27 156
Furniture, fixtures and office equipment	15 637	2 728	–	18 365
Computer equipment	62 402	6 049	(25 323)	43 128
Motor vehicles	14 421	827	(154)	15 094
	137 844	10 591	(25 477)	122 958

	Opening balance R000	Current year R000	Disposals R000	Closing balance R000
Accumulated depreciation				
Improvements to leased premises	16 428	573	–	17 001
Plant and machinery	18 271	2 573	–	20 844
Furniture, fixtures and office equipment	11 888	911	–	12 799
Computer equipment	50 481	7 582	(25 323)	32 740
Motor vehicles	5 770	622	(77)	6 315
	102 838	12 261	(25 400)	89 699

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

7. PROPERTY, PLANT AND EQUIPMENT continued

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Net book value				
Land and buildings	111 215	108 825	784	784
Improvements to leased premises	18 638	18 762	837	1 430
Plant and machinery	21 293	20 450	6 184	6 312
Furniture, fixtures and office equipment	12 988	11 930	5 312	5 566
Computer equipment	16 085	16 008	10 244	10 388
Motor vehicles	7 720	9 006	7 201	8 779
	187 939	184 981	30 562	33 259

Property, plant and equipment are carried on the cost model in accordance with IAS 16.

The following useful lives were applied in the current financial year for the depreciation of property, plant and equipment as based on the judgement of management. During the current financial year, the useful lives of certain assets were re-assessed – refer to note 23 for more information on the change in estimates.

Buildings	20 to 25 years
Improvements to leased premises	over period of the initial lease
Plant and machinery	5 to 25 years
Furniture, fixtures and office equipment	5 to 12 years
Computer equipment:	
– Desktops	5 years
– Laptops/notebooks	3 to 5 years
– Printers/scanners	5 to 6 years
– Displays (large and small)	3 to 7 years
– Network equipment (routers and switches)	5 years
– UPS	5 to 11 years
– CCTV cameras	2 to 6 years
Motor vehicles	5 to 7 years

The directors reviewed the residual values, useful lives and carrying amount of property, plant and equipment at year-end to determine the appropriate level of depreciation and whether there is any indication that those assets have suffered an impairment loss. The directors applied a residual value of zero to all items of plant and equipment as a result of the fact that plant and equipment are not held-for-trading and are normally scrapped, apart from motor vehicles for which a residual value of 20% of cost was determined. The residual value of buildings exceeds the original costs. Land is not depreciated.

The Group and company do not have any significant planned capital expenditure in the near future.

There are no restrictions over the title to any of the property, plant and equipment. Property, plant and equipment to the value of R64.4 million has been pledged as security for a mortgage bond.

8. INTANGIBLE ASSETS

	GROUP 2020 R000	GROUP 2019 R000	COMPANY 2020 R000	COMPANY 2019 R000
Goodwill				
Cost	62 344	62 344	–	–
At the beginning and end of the year	62 344	62 344	–	–
Accumulated impairments	(6 717)	(6 717)	–	–
At the beginning and end of the year	(6 717)	(6 717)	–	–
Carrying amount	55 627	55 627	–	–
Software*				
Cost	177 038	153 554	109 639	101 081
At the beginning of the year	153 554	137 663	101 081	87 091
Additions	23 543	15 983	8 558	13 990
Disposals	(166)	(101)	–	–
Exchange differences	107	9	–	–
Accumulated amortisation*	(105 833)	(100 387)	(73 781)	(71 435)
At the beginning of the year	(100 387)	(93 029)	(71 435)	(67 154)
Amortisation	(5 370)	(7 356)	(2 346)	(4 281)
Disposals	–	–	–	–
Exchange differences	(76)	(2)	–	–
Carrying amount	71 205	53 167	35 858	29 646
Total intangible assets	126 832	108 794	35 858	29 646

* *Software is written off on a straight-line basis over its remaining useful life of between one and three years.*

Intangible assets are carried on the cost model in accordance with IAS 38.

There are no restrictions over the title to any of the intangible assets and no intangible assets has been placed as security for any liabilities.

The Group is in the process of implementing a new ERP system and the amount spent thus far is R51.7 million. The ERP system will be completed and available for use in the next financial year and the costs incurred in developing the software will be amortised in accordance with IAS 38 Intangible Assets.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

8. INTANGIBLE ASSETS continued

	Pre-tax discount rate %	Post-tax discount rate %	Forecast cash flows	GROUP 2020 R000	GROUP 2019 R000
The carrying amount of goodwill had been allocated as follows:					
Mustek Limited	21.03	15.14	Five-year cash forecast, based on current year profits, with perpetual cash forecast thereafter	**20 274**	20 274
Palladium Business Solutions	21.03	15.14	Five-year cash forecast, with discounted cash flows calculated as a percentage of profit	**8 077**	8 077
Rectron	21.03	15.14	Five-year cash forecast, based on current year profits, with perpetual cash forecast thereafter	**27 276**	27 276
				55 627	55 627

Allocations between CGUs remained unchanged from the previous financial year.

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units that are expected to benefit from that business combination. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the cash-generating units were determined using a discounted cash flow model. A value-in-use was calculated and used as the recoverable amount. The key assumptions for the discounted cash flow model, are those regarding discount rates, expected volume growth rates, and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect management's assessment of the time value of money and their views on the risks specific to the cash-generating units. Discount rates used are based on a weighted average cost of capital of similar businesses in the same sector and of similar size, adjusted for the risk profile of the business.
The growth rates are based on management experience and their expectations of industry and market share growth. Expectation of changes in gross margins and changes in indirect costs are based on past practices, expectations of future changes in the market and a view on expected inflation rates.

8. INTANGIBLE ASSETS continued

The discount rate is calculated by using a risk-free rate and adjusted for risk factors as follows:

	Mustek Limited and Rectron	Palladium
Risk-free rate	9.00%	9.00%
Beta	1.3	1.3
Equity risk premium	6.00%	6.00%
Business risk	2.90%	2.90%

The impairment models were prepared on the same basis as the comparative year. The forecast cash flow periods and other inputs are all consistent with those of the comparative year.

Sensitivity analysis

Management has adjusted the cash flows of each CGU for entity-specific risk factors to arrive at the future cash flows expected to be generated from the CGU. There is no indication based on a reasonable fluctuation in those risk factors that the goodwill of the CGUs is impaired.

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

9. INVESTMENTS IN SUBSIDIARIES

	COMPANY	
	2020 R000	2019 R000
Shares at cost	304 698	304 698
– opening balance	304 698	304 698
– additions	–	–
Impairment charges	(131 133)	(122 422)
Opening carrying value adjustments	(122 422)	(122 422)
Current year impairment of investments and loans	(8 711)	–
Loans owing by subsidiaries	130 519	118 341
Non-current investments in subsidiaries	304 084	300 617
Loans owing to subsidiaries	(105 009)	(62 281)
	199 075	238 336

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9. INVESTMENTS IN SUBSIDIARIES continued

	Ownership interest		Shares at cost			
	2020 %	2019 %	2020 R000	Additions (disposals) R000	Opening impairment R000	Additional impairment R000
DIRECT						
Unlisted						
Ballena Trading 29 Proprietary Limited	**51**	51	**5 272**	–	(5 272)	–
Brobusmac Investments Proprietary Limited[2, 3]	**100**	100	**1 575**	–	–	–
Brotek Proprietary Limited[2, 5]	**100**	100	**71 468**	–	–	–
CIS Thuthukani Technology Proprietary Limited[2, 3]	**100**	100	**6 793**	–	–	–
Digital Surveillance Systems Proprietary Limited	**75**	75	**5 896**	–	(5 896)	–
Lithatek Investments Proprietary Limited	**100**	100	**19 448**	–	(19 448)	–
Makeshift 1000 Proprietary Limited	**100**	100	**10 698**	–	(10 698)	–
Mecer Technology Limited[6]	**100**	100	**6 629**	–	–	–
Mustek Capital Proprietary Limited[3]	**100**	100	**100**	–	–	–
Mustek Limited Company Limited	**100**	100	*****	–	–	–
Mustek East Africa Limited[4, 8, 9, 12]	**100**	100	**12 315**	–	(5 732)	–
MFS Technologies Proprietary Limited[2, 3]	**100**	100	*****	–	–	–
Mustek Electronics (Cape Town) Proprietary Limited	**100**	100	**3 229**	–	–	–
Mustek Electronics (Durban) Proprietary Limited	**100**	100	**1 658**	–	–	–
Mustek Electronics (Port Elizabeth) Proprietary Limited	**100**	100	**327**	–	–	–
Mustek Middle East FZCO	**100**	100	**1 392**	–	(1 392)	–
Mustek Lesotho Proprietary Limited	**99**	99	*****	–	–	–
Quickstep 94 Proprietary Limited[1, 2, 7, 12]	**100**	100	**2 581**	–	(2 581)	–
Rectron Holdings Limited[7]	**100**	100	**115 973**	–	–	–
Tradeselect 38 Proprietary Limited[3]	**100**	100	**3 400**	–	(3 400)	–
Zatophase Proprietary Limited	**100**	100	**35 944**	–	–	–
INDIRECT				–	–	–
Unlisted				–	–	–
Mecer Inter-Ed Proprietary Limited[2, 5, 12]	**100**	100	**–**	–	–	–
Palladium Business Solutions Proprietary Limited[11]	**50.1**	50.1	**–**	–	–	–
Rectron Electronics Proprietary Limited	**–**	–	**–**	–	–	–
Secure Electronic Commerce Proprietary Limited	**100**	100	*****	–	–	–
Sheerprops 68 Proprietary Limited	**100**	100	**–**	–	–	–
Soft 99 Proprietary Limited[7, 10, 12]	**68**	68	**–**	–	–	–
TOTAL DIRECT AND INDIRECT			**304 698**	–	(54 419)	–

** Amounts less than R1 000.*

[1] These loans have been subordinated in favour of all other creditors of the subsidiary. The loans have been partially or fully impaired in accordance with IFRS 9.
[2] These loans are interest free and have no fixed terms of repayment (management has no expectation to demand settlement of these loans within the next 12 months).
[3] Dormant companies registered and incorporated in South Africa.
[4] Active trading company registered and incorporated in Kenya.
[5] Active trading company registered and incorporated in South Africa.
[6] Active company registered and incorporated in Taiwan.

	Loans to (from)						Net investment	
2019 R000	2020 R000	Additions (disposals) R000	Opening impairment R000	Additional impairment R000	Foreign exchange movement R000	2019 R000	2020 R000	2019 R000
5 272	–	–	–	–	–	–	–	–
1 575	(7 960)	–	–	–	–	(7 960)	(6 385)	(6 385)
71 468	(70 163)	(42 728)	–	–	–	(27 435)	1 305	44 033
6 793	(10 212)	–	–	–	–	(10 212)	(3 419)	(3 419)
5 896	–	–	–	–	–	–	–	–
19 448	2 479	–	(2 479)	–	–	2 479	–	–
10 698	43 192	–	(43 142)	–	–	43 192	50	50
6 629	–	–	–	–	–	–	6 629	6 629
100	(10 520)	–	–	–	–	(10 520)	(10 420)	(10 420)
*	3 511	–	(3 511)	–	–	3 511	–	–
12 315	52 646	(227)	–	(5 723)	9 809	43 064	53 506	49 647
*	(1 271)	–	–	–	–	(1 271)	(1 271)	(1 271)
3 229	(3 216)	–	–	–	–	(3 216)	13	13
1 658	(1 433)	–	–	–	–	(1 433)	225	225
327	(234)	–	–	–	–	(234)	93	93
1 392	1 118	–	(1 118)	–	–	1 118	–	–
*	952	–	(952)	–	–	952	–	–
2 581	18 422	–	(16 801)	(25)	–	18 422	1 596	1 621
115 973	–	–	–	–	–	–	115 973	115 973
3 400	–	–	–	–	–	–	–	–
35 944	–	–	–	–	–	–	35 944	35 944
–	5 317	2 596	–	(81)	–	2 721	5 236	2 721
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
*	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	2 882	–	–	(2 882)	–	2 882	–	2 882
304 698	25 510	(40 359)	(68 003)	(8 711)	9 809	56 060	199 075	238 336

[7] *Non-trading investment company or property company registered and incorporated in South Africa.*

[8] *The investment in Mustek East Africa Limited was impaired by an amount of R5.7 million in previous financial years. The impairment represented the amount by which the net investment in the company exceeded its net asset value.*

[9] *This loan bears interest at 2% per annum and is repayable on demand (management has no expectation to demand settlement of this loan in the foreseeable future).*

[10] *This loan is interest free and has no fixed repayment terms (management has no expectation to demand settlement of these loans within the next 12 months).*

[11] *Rectron Holdings Limited acquired a 50.1% stake in Palladium Business Solutions Proprietary Limited, an independent software vendor, with effect from 1 March 2017.*

[12] *These loans are stated net of an allowance for expected credit losses, in terms of IFRS 9. The type of credit loss model used is Moody's Analytics "RiskCalc". The intercompany loans between Group companies were valued based on the risk of the counterparty on the comprehensive method.*

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9. INVESTMENTS IN SUBSIDIARIES continued

Shares at cost

In the separate financial statements of Mustek Limited, investments in subsidiaries are carried at cost in accordance with IAS 27.

A Group company considers an entity to be controlled, when the Group company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Loans

Classification

Loans to related companies (note 9 and 10) and entities outside the Group (note 11) are classified as financial assets subsequently measured at amortised cost. They have been classified in this manner because the contractual terms of these loans give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Loans receivable are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

Thus, after initial recognition, financial assets are measured at amortised cost using the effective interest rate method, net of impairment losses.

Impairment

The Group recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The Group distinguishes between the following categories:

- Financial assets that have not deteriorated significantly in credit quality since initial recognition or that have low risk (stage 1)
- Financial assets that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (stage 2), and
- Financial assets where objective evidence of impairment exists at the reporting date (stage 3).

For financial assets in stage 1, 12-month expected credit losses would be recognised while for financial assets in stage 2 and stage 3, lifetime expected credit losses would be recognised.

Impairment losses are recognised through profit or loss.

Net investment

The net investment is after impairment charges against the investments and loans of R131.1 million (2019: R122.4 million). The carrying amount of investments approximates the fair value.

Mecer Inter-Ed provides training solutions in the form of vendor authorised ICT training courses as well as learnerships and skills programmes as accredited training provider for various SETAs. The other trading subsidiaries' activities comprise the procurement, assembly, distribution and servicing of computers and printers, related components and allied products. A list of the number of shares that is held in each subsidiary is available at the registered office of the company. None of the loan receivables have been secured.

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests (NCI):

Name of subsidiary	Proportionate ownership interests and voting rights held by NCI (2020 and 2019)	Profit allocated to non-controlling interests 2020 R000	Profit allocated to non-controlling interests 2019 R000	Accumulated non-controlling interests 2020 R000	Accumulated non-controlling interests 2019 R000
Palladium Business Solutions Proprietary Limited Place of business: South Africa	49.9%	**1 213**	1 936	**8 692**	8 128
		1 213	1 936	**8 692**	8 128

9. INVESTMENTS IN SUBSIDIARIES continued

The summarised financial information below represents amounts before intergroup eliminations.

	2020 R000	2019 R000
Current assets	**9 813**	7 423
Non-current assets	**624**	338
Current liabilities	**(2 672)**	(2 575)
Non-current liabilities	**–**	–
At acquisition intangible assets recognised net of amortisation	**9 654**	11 102
Equity attributable to owners of the company	**17 419**	16 288
Revenue	**33 190**	32 567
Expenses	**29 311**	27 238
Profit for the year	**3 880**	5 329
Amortisation of intangible assets	**(1 449)**	(1 449)
	2 431	3 880
Profit attributable to owners of the company	**1 218**	1 944
Profit attributable to the non-controlling interests	**1 213**	1 936
Profit for the year	**2 431**	3 880
Total comprehensive income attributable to owners of the company	**1 218**	1 944
Total comprehensive income attributable to the non-controlling interests	**1 213**	1 936
Total comprehensive income for the year	**2 431**	3 880
Dividends paid to non-controlling interests	**649**	3 368
Net cash inflow (outflow) from operating activities	**1 628**	(2 628)
Net cash outflow from investing activities	**(252)**	(63)
Net cash (outflow) inflow from financing activities	**(64)**	1 007
Net cash inflow (outflow)	**1 312**	(2 691)

10. INVESTMENTS IN ASSOCIATES

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Shares at cost	**88 026**	88 026	**40 246**	40 246
– opening balance	**88 026**	88 026	**40 246**	40 246
– acquisitions	**–**	–	**–**	–
Impairments	**(24 539)**	(24 539)	**(4 189)**	(4 189)
– opening balance	**(24 539)**	(24 539)	**(4 189)**	(4 189)
Share of undistributed post-acquisition gains	**75 496**	62 488	**–**	–
– opening balance	**62 488**	48 600	**–**	–
– current year share of post-acquisition gains	**17 460**	19 688	**–**	–
– current year impairment of post-acquisition gains	**(1 881)**	–	**–**	–
– current year dividends received from associates	**(2 571)**	(5 800)	**–**	–
Loans owing by associates	**8 600**	8 600	**1 300**	1 300
Opening balance	**8 600**	12 541	**1 300**	5 241
(Decrease) increase in loans	**–**	(3 941)	**–**	(3 941)
Impairment adjustments	**(7 352)**	(7 313)	**(52)**	(13)
Investments in associates	**140 231**	127 262	**37 305**	37 344

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10. INVESTMENTS IN ASSOCIATES continued

The assets, liabilities and results of operations of significant associates at year-end are summarised as follows:

	Yangtze Optics Africa Holdings Proprietary Limited[1]		Zaloserve Proprietary Limited[2]	
	2020 R000	2019 R000	2020 R000	2019 R000
Current assets	159 647	82 383	578 116	362 581
Non-current assets	67 578	79 522	108 078	102 199
Total assets	227 225	161 905	686 194	464 780
Current liabilities	130 556	49 545	430 787	257 940
Non-current liabilities	–	–	24 623	16 638
Total liabilities	130 556	49 545	455 410	274 578
Revenue	149 455	123 513	1 455 798	1 446 133
(Loss) profit before tax	(7 091)	(13 112)	50 910	65 697
Income tax benefit (expense)	972	2 115	(11 945)	(16 502)
Net (loss) profit for the year	(6 119)	(10 997)	38 965	49 195

[1] *Group and company.*
[2] *Group.*

	Percentage holding		Cost				
	2020 %	2019 %	2020 R000	Additions (disposals) R000	Opening impairment R000	Additional impairment R000	2019 R000
COMPANY							
Unlisted							
Mustek Zimbabwe Private Limited[1]	–	–	4 189	–	(4 189)	–	4 189
Khauleza IT Solutions Proprietary Limited	36	36	–	–	–	–	–
Continuous Power Systems Proprietary Limited[3]	40	40	–	–	–	–	–
Yangtze Optics Africa Holdings Proprietary Limited[4]	25.1	25.1	36 057	–	–	–	36 057
TOTAL COMPANY			40 246	–	(4 189)	–	40 246
GROUP							
Unlisted							
Mustek Zimbabwe Private Limited[1]	–	–	–	–	–	–	–
Preworx Proprietary Limited[2]	38	38	24 447	–	(20 350)	–	24 447
Khauleza IT Solutions Proprietary Limited	36	36	–	–	–	–	–
Continuous Power Systems Proprietary Limited[3]	40	40	–	–	–	–	–
Zaloserve Proprietary Limited[5]	40	40	23 333	–	–	–	23 333
Yangtze Optics Africa Holdings Proprietary Limited[4]	25.1	25.1	–	–	–	–	–
TOTAL GROUP			88 026	–	(24 539)	–	88 026

[1] *On 1 July 2002 Mustek disposed of Mustek Zimbabwe. The purchaser irrevocably granted Mustek an option to purchase, at any time, 40% of the entire issued share capital of Mustek Zimbabwe for a nominal value and, as a result, the option investment is treated as an equity investment in an associate company. The investment in Mustek Zimbabwe exceeded its recoverable amount and the post-acquisition gains have therefore been impaired in the current year.*
[2] *This loan is unsecured, interest free and has no fixed terms of repayment. The investment and loan in this company were impaired to Rnil in previous financial years.*
[3] *With effect from 1 January 2011, Mustek Limited acquired a 40% share in Continuous Power Systems Proprietary Limited. This loan is interest free and has no fixed repayment terms (management has no expectation to demand settlement of this loan within the next 12 months). The loan is stated net of the expected credit loss, in accordance with IFRS 9. The type of credit loss model used is Moody's Analytics "RiskCalc".*

Khauleza IT Solutions Proprietary Limited[1]		Continuous Power Systems Proprietary Limited[1]		Mustek Zimbabwe Private Limited[1]		Preworx Proprietary Limited[2]	
2020 R000	2019 R000	**2020 R000**	2019 R000	**2020 R000**	2019 R000	**2020 R000**	2019 R000
45 229	41 105	**23 653**	10 965	**614**	14 736	**–**	–
4 456	3 425	**28 276**	21 086	**8**	189	**963**	963
49 685	44 530	**51 929**	32 051	**622**	14 925	**963**	963
5 278	5 871	**6 641**	4 027	**296**	3 831	**–**	–
1 231	–	**26 818**	18 589	**–**	76	**8 757**	8 757
6 509	5 871	**33 459**	22 616	**296**	3 907	**8 757**	8 757
115 780	99 251	**37 681**	32 817	**1 689**	58 512	**–**	–
13 975	4 393	**5 377**	2 065	**294**	5 005	**–**	–
(3 913)	(1 230)	**(1 506)**	(578)	**(76)**	(1 289)	**–**	–
10 062	3 163	**3 871**	1 487	**218**	3 716	**–**	–

Loans to					Equity-accounted share of earnings				Net investment	
2020 R000	Advanced/ (repaid) R000	Opening impairment R000	Additional impairment R000	2019 R000	**2020 R000**	Current year impairment R000	Dividend received R000	2019 R000	**2020 R000**	2019 R000
–	–	–	–	–	**–**	–	–	–	**–**	–
–	–	–	–	–	**–**	–	–	–	**–**	–
1 300	–	(13)	(39)	1 300	**–**	–	–	–	**1 248**	1 287
–	–	–	–	–	**–**	–	–	–	**36 057**	36 057
1 300	–	(13)	(39)	1 300	**–**	–	–	–	**37 305**	37 344
–	–	–	–	–	**–**	(1 881)	–	1 881	**–**	1 881
7 300	–	(7 300)	–	7 300	**(4 097)**	–	–	(4 097)	**–**	–
–	–	–	–	–	**13 464**	–	(2 571)	13 638	**13 464**	13 638
–	–	–	–	–	**4 545**	–	–	2 997	**4 545**	2 997
–	–	–	–	–	**72 776**	–	–	57 451	**96 109**	80 784
–	–	–	–	–	**(11 192)**	–	–	(9 382)	**(11 192)**	(9 382)
8 600	–	(7 313)	(39)	8 600	**75 496**	(1 881)	(2 571)	62 488	**140 231**	127 262

[4] *Mustek Limited acquired a 25.1% share in Yangtze Optics Africa Holdings Proprietary Limited with effect from 8 March 2016. Production by Yangtze Optics Africa Holdings Proprietary Limited started during 2018.*

[5] *Mustek Limited acquired a 65% share in Zatophase Proprietary Limited with effect from 13 March 2014. An additional 35% share was acquired with effect from 29 June 2016. Zatophase Proprietary Limited acquired a 40% share in Zaloserve Proprietary Limited on 13 March 2014. Furthermore, Zaloserve Proprietary Limited owns 100% of Sizwe Africa IT Group. The 40% investment in Zaloserve Proprietary Limited is equity accounted for in the Mustek Group.*

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10. INVESTMENTS IN ASSOCIATES continued

In the separate financial statements of Mustek Limited, investments in associates are carried at cost in accordance with IAS 28. For Group purposes, the investments in associates have been equity accounted in accordance with IAS 28.

The net investment is after impairment charges of R33.7 million (2019: R31.8 million) for the Group and R4.2 million (2019: R4.2 million) for the company. The carrying amounts of the investments approximates the fair values.

The loans are measured, at initial recognition, at fair value plus transaction costs, if any. After initial recognition, these loans are measured at amortised cost using the effective interest rate method, net of impairment losses.

The Group or company considers significant influence over an entity to be present, when the Group or company can exert significant influence over the executive decision-making within the entity. This may be achieved by either a combination of the voting rights associated to the shareholding in the entity, or through significant influence over executive decision-making by means of positions and relationships held.

Additional information	Nature of business	Country of incorporation	Period equity accounted
Mustek Zimbabwe Private Limited	Assembly and distribution of computers and computer components	Zimbabwe	12 months (2019: 12 months)
Khauleza IT Solutions Proprietary Limited	Provider of IT support solutions	South Africa	12 months (2019: 12 months)
Continuous Power Systems Proprietary Limited	Provider of uninterrupted power supply solutions	South Africa	12 months (2019: 12 months)
Zaloserve Proprietary Limited	Group of IT support solutions provider companies	South Africa	12 months (2019: 12 months)
A Open Proprietary Limited	Dormant	South Africa	12 months (2019: 12 months)
Preworx Proprietary Limited	Remote access diagnostics technology	South Africa	12 months (2019: 12 months)
Yangtze Optics Africa Holdings Proprietary Limited	Fibre optics technology	South Africa	12 months (2019: 12 months)

11. OTHER LOANS

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Loans	57 466	58 218	51 916	51 935
Impairment	(1 839)	(1 704)	(1 168)	(1 167)
– opening balance	(1 704)	(654)	(1 167)	(654)
– current year impairment	(135)	(1 050)	(1)	(513)
	55 627	56 514	50 748	50 768

11. OTHER LOANS continued

		Loans to						Net loan after impairment	
	Notes	2020 R000	Advances/ (repayments) R000	Group eliminations R000	Opening impairment R000	Additional impairment R000	2019 R000	2020 R000	2019 R000
COMPANY									
Unlisted									
A Lai	1 and 8	1 000	–	–	(10)	–	1 000	990	990
M Cameron	2 and 8	957	(18)	–	(10)	–	975	947	965
Simple Process Engineering Solutions Proprietary Limited		654	–	–	(654)	–	654	–	–
Elimu Technologies Proprietary Limited	3 and 8	2 151	191	–	(20)	(2)	1 960	2 129	1 940
Mustek Executive Share Trust	4, 5, 6 and 8	47 154	(192)	–	(473)	1	47 346	46 682	46 873
TOTAL COMPANY		51 916	(19)	–	(1 167)	(1)	51 935	50 748	50 768
GROUP									
Unlisted									
DC Kan	4, 6 and 8	26 979	79	–	(269)	(1)	26 900	26 709	26 631
H Engelbrecht	4, 6 and 8	14 708	(50)	–	(148)	1	14 758	14 561	14 610
CJ Coetzee	4, 6 and 8	3 327	(118)	–	(34)	1	3 445	3 294	3 411
JW Viviers	6 and 8	458	(12)	–	(5)	–	470	453	465
O Levey	6 and 8	65	(18)	–	(1)	–	83	64	82
JL Chen	6 and 8	1 153	(63)	–	(12)	–	1 216	1 141	1 204
MR de Klerk	6 and 8	464	(10)	–	(5)	–	474	459	469
Mustek Executive Share Trust	4, 5 and 6	(47 154)	192	(47 154)	–	–	(47 346)	(47 154)	(47 346)
IG3 Education Limited	7 and 8	5 550	(733)	–	(63)	(135)	6 283	5 352	6 220
TOTAL GROUP		57 466	(752)	(47 154)	(1 704)	(135)	58 218	55 627	56 514

All companies, trusts and individuals are registered or resident in South Africa, except for IG3 Education Limited, which is incorporated in Australia.

All these loans are carried at amortised cost. The fair values of these loans approximate the carrying amounts thereof.

[1] *This loan is secured, interest free and has no fixed terms of repayment (management has no expectation to demand settlement of these loans within the next 12 months).*

[2] *This loan is unsecured, interest free, and is repayable on demand (management has no expectation to demand settlement of these loans within the next 12 months).*

[3] *This loan is unsecured, bears interest at prime and has no fixed repayment terms (management has no expectation to demand settlement of these loans within the next 12 months).*

[4] *In total, 3.8 million Mustek Limited shares were issued to directors of Mustek Limited in terms of an executive share option scheme. The purchase of these shares was funded by means of a loan from the Mustek Executive Share Trust to the directors in terms of the rules of the trust. The loan from the share trust was in turn funded by a loan from Mustek Limited to the share trust. Up to 31 August 2017, these loans bore interest at the South African repo rate plus 1%. From 1 September 2017, the loans are interest free. Tax on fringe benefits is charged to the loan accounts on a monthly basis. These loans have no fixed repayment terms. Refer footnote 8 below for details on impairment and note 21 for related-party disclosure. Settlement is not expected within the next 12 months.*

[5] *In accordance with IFRS 10, Mustek has control over Mustek Executive Share Trust, as it is exposed and has rights to variable returns from its involvement with the trust and has the ability to affect those returns through its power. Therefore consolidated into the Group. This entity has a 28 February financial year-end which is different to the 30 June year-end of other Group entities (unless stated otherwise).*

[6] *During the 2015 financial year, 1.9 million Mustek Limited shares were issued to members of the executive management of Mustek Limited in terms of an executive share option scheme. The purchase of these shares was funded by means of a loan from the Mustek Executive Share Trust to the staff members in terms of the rules of the trust deed. The trust deed provides that the Board of directors determine the interest rate. Interest was charged at the South African repo rate plus 1%. From 1 September 2017, these loans were interest free and deemed fringe benefits. The loans have no fixed repayment terms. Refer footnote 8 below for details on impairment and note 21 for related-party disclosure. Settlement is not expected within the next 12-months.*

[7] *This loan bears interest at 4.17% per annum and is repayable in two equal payments over the next two years.*

[8] *These loans are stated net of the expected 12-month credit loss, in terms of IFRS 9. A rate of 1% was used for the expected credit loss. These loans have low credit risk as the borrowers have capacity to meet their obligations and sufficient measures are put in place to ensure recoverability of these loans.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

11. OTHER LOANS continued

Other impairment gain (losses) on loan receivables

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Impairment on loans to subsidiaries	–	–	(8 711)	–
Impairment on loans to associates	(39)	39	(39)	39
Impairment on loans to other	(135)	31	(1)	6
Impairment of associate	(1 881)	–	–	–
	(2 055)	70	(8 751)	45

12. INVENTORIES

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Trading inventory	1 453 076	1 341 365	888 255	920 409
Allowance for obsolescence	(57 536)	(44 997)	(49 622)	(37 029)
Trading inventory, net of allowance for obsolescence	1 395 540	1 296 368	838 633	883 380
Inventories in transit	213 546	97 024	148 329	51 673
Total inventories	1 609 086	1 393 392	986 962	935 053
Allowance for obsolescence				
Opening balance	(44 997)	(46 706)	(37 029)	(29 259)
Current year provision	(29 614)	1 364	(29 306)	(10 488)
Amount written off	17 075	345	16 713	2 718
Closing balance	(57 536)	(44 997)	(49 622)	(37 029)

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

Service stock and trading stock obsolescence allowances are highly judgemental because of the very competitive nature of the business and the extremely short lifecycle of the product. Service stock and trading stock is impaired depending on its age. Trading stock older than 150 days is considered aged stock. The net realisable value of inventory represents the estimated selling price less all estimated costs to completion and costs to be incurred in the current market at reporting date. The Group provides for the amount by which the cost of inventory exceeds the net realisable value multiplied by the units of stock on hand at reporting date. Included above are the carrying amounts of inventory stated at net realisable value for the Group and company of R91.4 million (2019: R89.1 million) and R64.8 million (2019: R28.6 million) respectively.

The cost of inventories recognised as an expense during the year was R5 263.1 million (2019: R4 930.4 million) and R3 766.8 million (2019: R3 244.3 million) for the Group and company respectively. Costs relating to outward freight and delivery are included in cost of sales.

The cost of inventories recognised includes R15.2 million (2019: R13.4 million) and R15.1 million (2019: R13.3 million) for the Group and company respectively, in respect of write-downs to net realisable value.

Sales between Group entities were made at an average mark-up of 2.5%.

No inventories that were not provided for, are expected to be recovered in 12 months or longer after the end of the current financial year.

13. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Financial instruments				
Gross trade receivables	1 017 298	839 175	775 576	575 387
Expected credit loss allowance	(53 585)	(23 107)	(39 729)	(20 054)
Net trade receivables at amortised cost	963 713	816 068	735 847	555 333
Other receivables	25 664	24 589	25 664	24 589
Non-financial instruments				
Other receivables	83 861	94 270	72 878	79 850
VAT receivable	90 722	34 219	66 500	30 242
Total current trade and other receivables	1 163 960	969 146	900 889	690 014
Categorisation of trade and other receivables in accordance with IFRS 9				
Financial instruments held at amortised cost				
Trade receivables	963 713	816 068	735 847	555 333
Other receivables	25 664	24 589	25 664	24 589
Non-financial instruments				
Other receivables	83 861	94 270	72 878	79 850
VAT receivable	90 722	34 219	66 500	30 242
	1 163 960	969 146	900 889	690 014

Classification

Trade and other receivables are classified as financial assets subsequently measured at amortised cost. They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on trade and other receivables.

Recognition and measurement

Trade and other receivables are recognised when the Group becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at the transaction price. They are subsequently measured at amortised cost, net of impairment losses.

Impairment

The Group recognises a loss allowance for expected credit losses on trade receivables. The amount of expected credit losses is updated at each reporting date. The Group measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses (lifetime ECL) based on the simplified approach, which represents the expected credit losses that will result from all possible default events over the expected life of the receivable. Refer to page 165.

Other information

The directors consider that the carrying amount of trade and other receivables approximates their fair value, due to their short-term nature.

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the statement of financial position are net of allowances for expected credit losses. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group performs ongoing credit valuations of the financial condition of customers, and where appropriate, credit guarantee insurance is purchased for between 85% to 90% (2019: 85% to 90%) of the value of individual trade receivables subject to an insurance deductible. Note that the majority of trade receivables are encumbered (see above and note 16).

The other classes within trade and other receivables do not contain impaired assets.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

13. TRADE AND OTHER RECEIVABLES continued

Other information continued

The average credit period on sale of goods and services is between 30 and 60 days (2019: 30 and 60 days) from date of invoice. Generally, no interest is charged on trade receivables. Of the trade receivable balance at year-end, R55.3 million (2019: R47.8 million) and R55.1 million (2019: R29.8 million) is due from the Group and the company's largest customer respectively.

It is the Group's policy to provide credit to approved dealers, government departments and parastatals, and to allow an account to exceed its credit limit by a maximum of 50% of the original credit limit for temporary periods, subject to the necessary approval. Limits are revised regularly according to the customers' requirements and payment history. When an insured limit is exceeded temporarily, an application is immediately sent to the insurer requesting an extension of the insured limit.

Write-off policy

Trade receivables that are not covered by our credit insurance are written off when a debt becomes irrecoverable, this is based on factors such as lack of securities, status of surety holder or when it is uneconomical to pursue collection costs.

Expected credit losses

The Group and company's trade receivables are stated after allowances for expected credit losses. The following table shows the movement in lifetime ECL that has been recognised for trade and other receivables in accordance with the simplified approach set out in IFRS 9:

	Collectively assessed R000	Individually assessed R000	Total R000
GROUP – 2020			
Balance at the beginning of the year	5 951	17 156	23 107
Foreign exchange movements	157	–	157
Net amounts written off as uncollectible	(6 221)	(15 470)	(21 691)
Charged to profit or loss	31 573	20 439	52 012
Balance at the end of the year	31 460	22 125	53 585
GROUP – 2019			
Adjusted opening balance on initial application of IFRS 9 on 1 July 2018	5 895	10 441	16 336
Net amounts written off as uncollectible	–	–	–
Charged to profit or loss	56	6 715	6 771
Balance at the end of the year	5 951	17 156	23 107
COMPANY – 2020			
Balance at the beginning of the year	3 945	16 109	20 054
Net amounts written off as uncollectible	–	(10 026)	(10 026)
Charged to profit or loss	19 887	9 814	29 701
Balance at the end of the year	23 832	15 897	39 729
COMPANY – 2019			
Adjusted opening balance on initial application of IFRS 9 on 1 July 2018	4 315	7 872	12 187
Net amounts written off as uncollectible	–	–	–
Charged to profit or loss	(370)	8 237	7 867
Balance at the end of the year	3 945	16 109	20 054

13. TRADE AND OTHER RECEIVABLES continued

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group limits its counterparty exposure arising from money market and derivative instruments by only dealing with well-established financial institutions of high credit standing. The Group's exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of transactions concluded is spread among approved counterparties.

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of cash and cash equivalents, forward exchange contracts, loans and receivables, investments and trade and other receivables. Financial guarantees granted also subject the Group to credit risk.

With respect to the forward exchange contracts, the Group's exposure is on the full amount of the foreign currency due on settlement. The Group minimises credit risk relating to forward exchange contracts by limiting the counterparties to major local and international banks, and does not expect to incur any losses as a result of non-performance by these counterparties.

Financial assets recorded in the financial statements, which are net of impairment losses, represent the company and Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The maximum credit exposure of forward exchange contracts is represented by the fair value of these contracts. The maximum credit exposure of financial guarantee contracts granted is the maximum amount the Group could be required to pay, or fund, without consideration of the probability of the actual outcome.

The Group holds collateral over certain trade and other receivables. The collateral is made up of demand guarantees from financial institutions and can be exercised on liquidation of the debtor. The collateral held amounted to R470.3 million (2019: R504.3 million) and R365.3 million (2019: R290.7 million) for the Group and company, respectively.

It is the Group's policy to provide for impairment based on expected credit losses (collectively assessed). Individual debtors are also assessed and debtors that have defaulted in payments or the probability exists that the debtor is experiencing financial difficulties will also be provided for (individually assessed).

In the prior year, the provision matrix was split between different customer categories with different risk profiles, as tabled on page 172.

Debtors were segmented into the below four main types taking into consideration the exposure in the markets they operate in:
Dealers – resellers who sell into all sectors of the economy
Retail – resellers that sell directly to the public through e-tail channels or physical stores
Government – resellers that sell to government and parastatals
Export – resellers that we export to, limited to Africa

In the current financial year, a different type of credit loss model was used. A combination of models derived from internal data and external models was produced on relevant data. For intercompany trade receivables, Moody's Analytics RiskCalc SA financial statement PD and LGD models were used.

For the remainder of trade receivables, analysis of empirical evidence of historical defaults and losses with a judgemental overlay which generally includes SA benchmark data, where possible, and measured per risk pool.

Conversion of ratings and historic PD and LGD into an ECL

Ratings, measured PD and LGDs are converted from through the cycle (TTC) to point-in-time (PIT) measures using Moody's Analytics ImpairmentCalc product. ImpairmentCalc then converts (or conditions) these historic or point-in-time measures into forward looking measures that constitute the ECL. This conditioning utilises their proprietary models, their database of validated historic macroeconomic data and forecast scenarios and recommended weightings of scenarios.

Moody's Analytics produces a set of macroeconomic forecasts for South Africa that considers the historical accuracy of various forecasters to identify reliable sources. These are incorporated into their GCorr macroeconomic forecast set. Based on research conducted by Moody's Analytics they recommend the use of their Baseline, Stronger Near-Term Rebound (S1), and Moderate Recession (S3) forecast sets weighted 40%, 30%, 30% respectively for a forward looking adjustment for the purposes of IFRS 9. They consider both public and private South African company defaults in this research. The methodology does consider the industry of the asset and includes in the calculations likely volatility of that industry to the average impact of the South African economy.

The advent of COVID-19 had a fundamental impact on the economy in general with an exaggerated impact on credit risk. Moody's Analytics updated their forecasts to reflect this risk by taking into account the possible spread of the epidemic through the country, the economic impact of the epidemic including measures taken to prevent its spread and measures taken by the government to ameliorate the economic impact.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

13. TRADE AND OTHER RECEIVABLES continued

	Indicative amount at 30 June 2020 R000	Measurement approach	Sovereign rating	Loss given default %	ECL % prior to adjustment for sovereign risk	ECL % on sovereign	ECL % at 30 June 2020	Indicative ECL amount R000	Indicative net balance R000
GROUP – 2020									
0 – 30 days									
Total	535 220							(11 928)	523 293
Angola	1 347	Sovereign rate and empirical	B3	35	1.92	8.64	8.64	(116)	1 230
Botswana	2 508	Sovereign rate and empirical	A2	35	1.92	0.16	1.92	(48)	2 460
DRC	–	Sovereign rate and empirical	Caa1	35	1.92	12.62	12.62	–	–
Lesotho	111	Sovereign rate and empirical	B2	35	1.92	5.93	5.93	(7)	105
Malawi	–	Sovereign rate and empirical	Caa1	35	1.92	12.62	12.62	–	–
Mozambique	–	Sovereign rate and empirical	Caa2	35	1.92	18.19	18.19	–	–
Namibia	694	Sovereign rate and empirical	Ba2	35	1.92	1.94	1.94	(13)	681
Nigeria	–	Sovereign rate and empirical	B2	35	1.92	5.93	5.93	–	–
Swaziland	642	Sovereign rate and empirical	B2	35	1.92	5.93	5.93	(38)	604
Zambia	671	Sovereign rate and empirical	Ca	35	1.92	22.50	22.50	(71)	600
Zimbabwe	8 273	Sovereign rate and empirical	Defaulted	35	1.92	55.00	55.00	(1 962)	6 311
South Africa	517 975	Empirical	–	6.2	1.92	–	1.79	(9 615)	508 360
Taiwan	1 493	Empirical	–	6.2	1.92	–	1.92	(29)	1 465
Kenya	1 506	Empirical	–	6.2	1.92	5.93	1.92	(29)	1 477
30 – 60 days									
Total	190 257							(6 163)	184 095
Angola	–	Sovereign rate and empirical	B3	35	3.12	8.64	8.64	–	–
Botswana	2 135	Sovereign rate and empirical	A2	35	3.12	0.16	3.12	(67)	2 069
DRC	–	Sovereign rate and empirical	Caa1	35	3.12	12.62	12.62	–	–
Lesotho	53	Sovereign rate and empirical	B2	35	3.12	5.93	5.93	(3)	50
Malawi	–	Sovereign rate and empirical	Caa1	35	3.12	12.62	12.62	–	–
Mozambique	3	Sovereign rate and empirical	Caa2	35	3.12	18.19	18.19	(1)	3
Namibia	687	Sovereign rate and empirical	Ba2	35	3.12	1.94	3.12	(21)	666
Nigeria	–	Sovereign rate and empirical	B2	35	3.12	5.93	5.93	–	–
Swaziland	330	Sovereign rate and empirical	B2	35	3.12	5.93	5.93	(20)	310
Zambia	4 043	Sovereign rate and empirical	Ca	35	3.12	22.50	22.50	(404)	3 639
Zimbabwe	1 734	Sovereign rate and empirical	Defaulted	35	3.12	55.00	55.00	(190)	1 543
South Africa	180 369	Empirical	–	6.2	3.12	–	2.92	(5 429)	174 940
Kenya	903	Empirical	–	6.2	3.12	5.93	3.12	(28)	875

13. TRADE AND OTHER RECEIVABLES continued

	Indicative amount at 30 June 2020 R000	Measurement approach	Sovereign rating	Loss given default %	ECL % prior to adjustment for sovereign risk	ECL % on sovereign	ECL % at 30 June 2020	Indicative ECL amount R000	Indicative net balance R000
GROUP – 2020									
60 – 90 days									
Total	28 882							(2 140)	26 741
Angola	–	Sovereign rate and empirical	B3	35	7.52	8.64	8.64	–	–
Botswana	–	Sovereign rate and empirical	A2	35	7.52	0.16	7.52	–	–
DRC	–	Sovereign rate and empirical	Caa1	35	7.52	12.62	12.62	–	–
Lesotho	1	Sovereign rate and empirical	B2	35	7.52	5.93	7.52	–	1
Malawi	–	Sovereign rate and empirical	Caa1	35	7.52	12.62	12.62	–	–
Mozambique	–	Sovereign rate and empirical	Caa2	35	7.52	18.19	18.19	–	–
Namibia	–	Sovereign rate and empirical	Ba2	35	7.52	1.94	7.52	–	–
Nigeria	–	Sovereign rate and empirical	B2	35	7.52	5.93	7.52	–	–
Swaziland	3	Sovereign rate and empirical	B2	35	7.52	5.93	7.52	–	2
Zambia	–	Sovereign rate and empirical	Ca	35	7.52	22.50	22.50	–	–
Zimbabwe	22	Sovereign rate and empirical	Defaulted	35	7.52	55.00	55.00	(2)	20
South Africa	26 660	Empirical	–	–	7.52	–	7.03	(1 973)	24 687
Taiwan	1 130	Empirical	–	6.2	7.52	–	7.52	(85)	1 045
Kenya	1 066	Empirical	–	6.2	7.52	5.93	7.52	(80)	986

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

13. TRADE AND OTHER RECEIVABLES continued

	Indicative amount at 30 June 2020 R000	Measurement approach	Sovereign rating	Loss given default %	ECL % prior to adjustment for sovereign risk	ECL % on sovereign	ECL % at 30 June 2020	Indicative ECL amount R000	Indicative net balance R000
GROUP – 2020									
90+ days									
Total	113 568							(11 229)	102 339
Angola	232	Sovereign rate and empirical	B3	35	9.96	8.64	9.96	(23)	209
Botswana	442	Sovereign rate and empirical	A2	35	9.96	0.16	9.96	(44)	398
DRC	–	Sovereign rate and empirical	Caa1	35	9.96	12.62	12.62	–	–
Lesotho	85	Sovereign rate and empirical	B2	35	9.96	5.93	9.96	(8)	76
Malawi	–	Sovereign rate and empirical	Caa1	35	9.96	12.62	12.62	–	–
Mozambique	–	Sovereign rate and empirical	Caa2	35	9.96	18.19	18.19	–	–
Namibia	11	Sovereign rate and empirical	Ba2	35	9.96	1.94	9.96	(1)	10
Nigeria	–	Sovereign rate and empirical	B2	35	9.96	5.93	9.96	–	–
Swaziland	–	Sovereign rate and empirical	B2	35	9.96	5.93	9.96	–	–
Zambia	3 560	Sovereign rate and empirical	Ca	35	9.96	22.50	22.50	(356)	3 204
Zimbabwe	914	Sovereign rate and empirical	Defaulted	35	9.96	55.00	55.00	(201)	713
South Africa	96 319	Empirical	–	6.2	9.96	–	9.31	(9 399)	86 920
Kenya	12 005	Empirical	–	6.2	9.96	5.93	9.96	(1 197)	10 809
Total Group ECL								(31 460)	

13. TRADE AND OTHER RECEIVABLES continued

	Indicative amount at 30 June 2020 R000	Measurement approach	Sovereign rating	Loss given default %	ECL % prior to adjustment for sovereign risk	ECL % on sovereign	ECL % at 30 June 2020	Indicative ECL amount R000	Indicative net balance R000
COMPANY– 2020									
0 – 30 days									
Total	396 654							(8 329)	388 322
Angola	1 347	Sovereign rate and empirical	B3	35.00	1.92	8.64	8.64	(116)	1 230
Botswana	1 124	Sovereign rate and empirical	A2	35.00	1.92	0.16	1.92	(22)	1 102
DRC	–	Sovereign rate and empirical	Caa1	35.00	1.92	12.62	12.62	–	–
Lesotho	100	Sovereign rate and empirical	B2	35.00	1.92	5.93	5.93	(6)	94
Malawi	–	Sovereign rate and empirical	Caa1	35.00	1.92	12.62	12.62	–	–
Mozambique	–	Sovereign rate and empirical	Caa2	35.00	1.92	18.19	18.19	–	–
Namibia	141	Sovereign rate and empirical	Ba2	35.00	1.92	1.94	1.94	(3)	139
Nigeria	–	Sovereign rate and empirical	B2	35.00	1.92	5.93	5.93	–	–
Swaziland	–	Sovereign rate and empirical	B2	35.00	1.92	5.93	5.93	–	–
Zambia	655	Sovereign rate and empirical	Ca	35.00	1.92	10.00	10.00	(65)	589
Zimbabwe	7 013	Sovereign rate and empirical	Defaulted	35.00	1.92	10.00	10.00	(701)	6 311
South Africa	386 274	Empirical	–	6.21	1.92		1.92	(7 416)	378 857
30 – 60 days									
Total	138 607							(4 721)	133 887
Angola	–	Sovereign rate and empirical	B3	35.00	3.12	8.64	8.64	–	–
Botswana	1 213	Sovereign rate and empirical	A2	35.00	3.12	0.16	3.12	(38)	1 175
DRC	–	Sovereign rate and empirical	Caa1	35.00	3.12	12.62	12.62	–	–
Lesotho	–	Sovereign rate and empirical	B2	35.00	3.12	5.93	5.93	–	–
Malawi	–	Sovereign rate and empirical	Caa1	35.00	3.12	12.62	12.62	–	–
Mozambique	–	Sovereign rate and empirical	Caa2	35.00	3.12	18.19	18.19	–	–
Namibia	17	Sovereign rate and empirical	Ba2	35.00	3.12	1.94	3.12	(1)	17
Nigeria	–	Sovereign rate and empirical	B2	35.00	3.12	5.93	5.93	–	–
Swaziland	–	Sovereign rate and empirical	B2	35.00	3.12	5.93	5.93	–	–
Zambia	4 043	Sovereign rate and empirical	Ca	35.00	3.12	10.00	10.00	(404)	3 639
Zimbabwe	1 715	Sovereign rate and empirical	Defaulted	35.00	3.12	10.00	10.00	(171)	1 543
South Africa	131 619	Empirical	–	6.21	3.12		3.12	(4 107)	127 513

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

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13. TRADE AND OTHER RECEIVABLES continued

	Indicative amount at 30 June 2020 R000	Measurement approach	Sovereign rating	Loss given default %	ECL % prior to adjustment for sovereign risk	ECL % on sovereign	ECL% at 30 June 2020	Indicative ECL amount R000	Indicative net balance R000
COMPANY – 2020									
60 – 90 days									
Total	23 469							(1 765)	21 704
Angola	–	Sovereign rate and empirical	B3	35.00	7.52	8.64	8.64	–	–
Botswana	–	Sovereign rate and empirical	A2	35.00	7.52	0.16	7.52	–	–
DRC	–	Sovereign rate and empirical	Caa1	35.00	7.52	12.62	12.62	–	–
Lesotho	–	Sovereign rate and empirical	B2	35.00	7.52	5.93	7.52	–	–
Malawi	–	Sovereign rate and empirical	Caa1	35.00	7.52	12.62	12.62	–	–
Mozambique	–	Sovereign rate and empirical	Caa2	35.00	7.52	18.19	18.19	–	–
Namibia	–	Sovereign rate and empirical	Ba2	35.00	7.52	1.94	7.52	–	–
Nigeria	–	Sovereign rate and empirical	B2	35.00	7.52	5.93	7.52	–	–
Swaziland	–	Sovereign rate and empirical	B2	35.00	7.52	5.93	7.52	–	–
Zambia	–	Sovereign rate and empirical	Ca	35.00	7.52	10.00	10.00	–	–
Zimbabwe	22	Sovereign rate and empirical	Defaulted	35.00	7.52	10.00	10.00	(2)	20
South Africa	23 447	Empirical	–	6.21	7.52		7.52	(1 763)	21 684
90+ days									
Total	86 308							(8 598)	77 709
Angola	232	Sovereign rate and empirical	B3	35.00	9.96	8.64	9.96	(23)	209
Botswana	368	Sovereign rate and empirical	A2	35.00	9.96	0.16	9.96	(37)	331
DRC	–	Sovereign rate and empirical	Caa1	35.00	9.96	12.62	12.62	–	–
Lesotho	–	Sovereign rate and empirical	B2	35.00	9.96	5.93	9.96	–	–
Malawi	–	Sovereign rate and empirical	Caa1	35.00	9.96	12.62	12.62	–	–
Mozambique	–	Sovereign rate and empirical	Caa2	35.00	9.96	18.19	18.19	–	–
Namibia	5	Sovereign rate and empirical	Ba2	35.00	9.96	1.94	9.96	(1)	5
Nigeria	–	Sovereign rate and empirical	B2	35.00	9.96	5.93	9.96	–	–
Swaziland	–	Sovereign rate and empirical	B2	35.00	9.96	5.93	9.96	–	–
Zambia	3 560	Sovereign rate and empirical	Ca	35.00	9.96	10.00	10.00	(356)	3 204
Zimbabwe	793	Sovereign rate and empirical	Defaulted	35.00	9.96	10.00	10.00	(79)	713
South Africa	81 350	Empirical	–	6.21	9.96		9.96	(8 102)	73 247

13. TRADE AND OTHER RECEIVABLES continued

	Indicative amount at 30 June 2020 R000	Measurement approach	Probability of default or rating	Loss given default %	ECL % prior to adjustment for sovereign risk	ECL% on sovereign	ECL % at 30 June 2020	Indicative ECL amount R000	Indicative net balance R000
COMPANY – 2020									
Intercompany balances									
Total	3 718							(419)	3 300
Rectron	3 718	Moody's RiskCalc	5.84	58.38	–	–	11.24	(419)	3 300
Total company ECL								(23 832)	

Individually assessed debtors

The Group has identified specific debtors (debtors which have been handed over for legal action) that are included in the tables above (90+ days), for which an ECL of 9.96% has been provided for. The Group provided a further ECL % for these debtors based on the risk profile associated with each category as tabled below:

		GROUP		COMPANY	
Category	ECL	Indicative amount at 30 June 2020 R000	Indicative ECL amount R000	Indicative amount at 30 June 2020 R000	Indicative ECL amount R000
Category 1	15%	17 998	1 718	9 860	497
Category 2	Between 15% and 100%	17 239	7 104	17 239	7 104
Category 3	100%	14 222	13 303	9 214	8 296
		49 459	22 125	36 313	15 897

Category 1 – debtors included in this category are impaired at 15% as a result of credit insurance being held for the remaining 85% of the debt.

Category 2 – debtors included in this category relate to debtors with varying levels of security such as personal suretyships, cessions and guarantees. The assessment of recoverability results in an ECL of between 15% and 100%.

Category 3 – debtors impaired at 100% are based on the probability that the debtor will be fully delinquent and low or no recoverability exists for this debt.

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13. TRADE AND OTHER RECEIVABLES continued

	Total R000	Dealers R000	Retail R000	Government R000	Export R000
2019					
GROUP					
Trade receivables	864 973	482 094	208 551	133 451	40 877
Expected credit loss rate (%)		1.87	4.06	5.00	2.56
Expected credit loss	26 574	11 061	7 392	6 673	1 448
Less VAT	(3 466)	(1 443)	(964)	(870)	(189)
	23 107	9 618	6 428	5 802	1 259

	Dealers %	Retail %	Government %	Export %
Historical loss ratio	0.66	1.91	2.86	1.18
Forward looking adjustment	1.22	2.15	2.14	1.38
	1.87	4.06	5.00	2.56

	Total R000	Dealers R000	Retail R000	Government R000	Export R000
2019					
COMPANY					
Trade receivables	572 803	318 864	86 103	133 451	34 385
Expected credit loss rate (%)		2.82	7.00	5.00	4.00
Expected credit loss	23 063	8 989	6 026	6 673	1 375
Less VAT	(3 007)	(1 172)	(786)	(870)	(179)
	20 054	7 816	5 240	5 802	1 196

	Dealers %	Retail %	Government %	Export %
Historical loss ratio	1.60	4.85	2.86	2.62
Forward looking adjustment	1.22	2.15	2.14	1.38
	2.82	7.00	5.00	4.00

Historical loss ratios were adjusted for forward looking information. This factor was determined through consideration of the business confidence index and other macroeconomic indicators as well as specific trends observed in the segmented customer categories as evidenced by an increase in the historical loss ratios in prior years.

14. BANK BALANCES AND CASH

Bank balances and cash comprise cash, funds on call and short-term deposits. The carrying amount of these assets approximates their fair value. These financial assets are recognised initially at fair value and subsequently measured at amortised cost. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Bank balances and cash	263 632	221 719	117 895	125 202

Net cash from operations

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Profit for the year	88 050	106 535	72 123	89 656
Adjusted for:				
Income tax expense	27 441	26 498	19 330	11 688
Interest income	(4 536)	(8 035)	(2 705)	(5 434)
Finance costs	105 409	112 289	74 480	77 237
Dividend income	–	–	(20 160)	(46 200)
Depreciation of property, plant and equipment and right-of-use assets	40 907	18 316	35 606	12 261
Loss (profit) on disposal of plant and equipment	645	(7 798)	419	32
Unrealised foreign exchange (gains)	(17 726)	(16 422)	(12 922)	(14 659)
Fair value adjustments of FECs	16 466	9 526	2 228	7 958
Movement in impairment charge to associate loans	39	(39)	39	(39)
Movement in impairment charge to other loans	135	(31)	1	(6)
Movement in operating lease liability	–	425	–	612
Share-based payments	4 132	10 735	3 393	9 196
Amortisation of intangible assets	5 370	7 356	2 346	4 281
Impairment of subsidiary loans	–	–	8 711	–
Impairment of investment in associate	1 881	–	–	–
Share of profit of associates	(17 460)	(19 688)	–	–
Operating cash flows before movements in working capital	250 753	239 667	182 889	146 583
Working capital movements	249 229	(255 959)	182 081	(209 850)
Increase in inventories	(215 694)	(240 139)	(51 909)	(187 114)
(Increase) decrease in trade and other receivables	(194 230)	(7 593)	(210 875)	10 141
Increase (decrease) in contract assets and liabilities	7 641	5 673	(1 085)	5 617
Increase (decrease) in trade and other payables	651 512	(13 900)	445 950	(38 494)
Net cash from (used in) operations	499 982	(16 292)	364 970	(63 267)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

15. STATED CAPITAL AND EARNINGS PER SHARE

	GROUP AND COMPANY	
	2020 R000	2019 R000
Authorised share capital		
250 000 000 ordinary shares (2019: 250 000 000)		
Issued share capital/ordinary stated capital		
Opening balance: 70 000 000 ordinary shares (2019: 73 000 000)	–	–
Shares bought back: 0 ordinary shares (2019: 3 000 000 ordinary shares)	–	(21 267)
Share buybacks funded by retained income	–	21 267
Closing balance: 70 000 000 ordinary shares (2019: 70 000 000)	–	–

	Number of shares 000	Number of shares 000
Ordinary shares		
Balance at the beginning of the year	70 000	73 000
Shares bought back and cancelled	–	(3 000)
Balance at the end of the year	70 000	70 000
Average price paid for share buyback	N/A	7.089

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 16, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Group's Board of directors reviews the capital structure on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group has a target net debt-to-equity ratio of 66%:34%. The current debt-to-equity ratio is 69%:31%.

Group equity comprises equity attributable to equity holders of the parent.

Earnings per share

The calculation of the basic and headline earnings per share is based on the following data:

	GROUP	
	2020 R000	2019 R000
Basic earnings (profit for the year attributable to equity holders of the parent)	86 837	104 598
Group's share of after-tax loss (profit) on disposal of property, plant and equipment and intangible assets	274	(6 068)
Group's share on impairment of associate (refer note 10)	1 881	–
Headline earnings	88 992	98 530
Number of shares	000	000
Weighted average number of ordinary shares for the purposes of basic earnings per share	70 000	70 722
Effect of dilutive potential ordinary shares – share options	–	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	70 000	70 722

At year-end, no share options were outstanding (2019: no share options were outstanding). The weighted average market price for the current financial year was R6.83 per share (2019: R5.65 per share).

15. STATED CAPITAL AND EARNINGS PER SHARE continued

	2020 Cents	2019 Cents
Earnings per share		
– headline earnings per ordinary share	127.13	139.32
– basic earnings per ordinary share	124.05	147.90
– diluted headline earnings per ordinary share	127.13	139.32
– diluted basic earnings per ordinary share	124.05	147.90

16. BORROWINGS

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Interest-bearing				
Unsecured				
Bank overdrafts	81 420	393 488	81 420	393 480
Secured				
Bank overdrafts	37 412	–	37 412	–
Mortgage bond	40 000	–	–	–
Total interest-bearing borrowings	158 832	393 488	118 832	393 480
Interest free				
Unsecured – non-financial liabilities				
Operating lease liabilities	–	3 908	–	4 502
Share-based payment liabilities (refer note 21)	10 432	12 229	8 528	10 233
Total interest-free borrowings	10 432	16 137	8 528	14 735
Total borrowings	169 264	409 625	127 360	408 215
The borrowings are repayable as follows:				
On demand or within one year	127 000	400 941	125 591	397 596
In the second year	4 159	7 632	1 469	6 622
In the third to fifth years inclusive	38 105	1 052	300	3 998
Total borrowings	169 264	409 625	127 360	408 216
Bank overdrafts	(118 832)	(393 488)	(118 832)	(393 480)
Amounts due for settlement within 12 months	(8 168)	(7 453)	(6 759)	(4 116)
Long-term borrowings	42 264	8 684	1 769	10 620
Consisting of:				
Interest-bearing borrowings	158 832	393 488	118 832	393 480
Interest-free borrowings	10 432	16 137	8 528	14 735
	169 264	409 625	127 360	408 215

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

16. BORROWINGS continued

Additional information

Included in borrowings are the following:

Accounts receivable securitisation loans

Included in bank overdrafts, is an amount of R37.4 million (2019: R378.1 million), which represents a general banking facility from the Bank of China Limited, bearing interest at JIBAR plus 2% (2019: JIBAR plus 2%) and is repayable by 15 January 2021 (2019: 2 February 2020). It is the intention of the directors to renew the facility for a further period of 12 months. This loan is classified as subsequently measured at amortised cost. The facility is secured over accounts receivable in Mustek Limited and Rectron Proprietary Limited. A working capital ratio of more than one, as well as a net debt-to-equity ratio not exceeding 180%, is required to be maintained by Mustek Limited. Furthermore, the total facility of R480 million (2019: R480 million) is limited to 90% of the trade receivables less than 90 days of age, in Mustek Limited. All facility covenants were met in the current and previous financial year.

Bank overdrafts are measured at amortised cost.

During the current financial year, Brotek Proprietary Limited, a company within the Group obtained a mortgage bond of R40 million. The variable interest rate is set at the prime rate less 0.75% and the loan term is five years. Repayments will consist of interest only for the first 12 months and thereafter part capital and interest over the remainder of the loan term.

Reconciliation of cash flows arising from financing activities

	2019 R000	Initial recognition R000	Financing cash flows R000	Non-cash changes R000	2020 R000
GROUP					
Bank overdrafts	393 488	–	(274 656)	–	**118 832**
Lease liabilities (note 24)	–	53 291	(24 382)	4 900	**33 809**
Mortgage bond	–	–	40 000	–	**40 000**
	393 488	53 291	(259 038)	4 900	**192 641**
COMPANY					
Bank overdrafts	393 480	–	(274 648)	–	**118 832**
Lease liabilities (note 24)	–	91 116	(22 231)	796	**69 681**
Loans from subsidiaries	62 281	–	42 728	–	**105 009**
	393 480	91 116	(296 879)	796	**188 513**

16. BORROWINGS continued

Operating lease liabilities (IAS 17)

Operating lease liabilities occur in the earlier years of long-term operating lease contracts with fixed escalation clauses. An equal amount is expensed every year while the cash flows normally escalate. These liabilities are not financial instruments, are not secured and do not have an interest component attached to them.

The Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Cash due:				
Not later than one year	–	27 469	–	28 830
Later than one year and not later than five years	–	28 005	–	47 358
Later than five years	–	–	–	31 437
	–	55 474	–	107 625
Operating lease liability	–	3 908	–	4 502
To be expensed:				
Not later than one year	–	26 108	–	28 830
Later than one year and not later than five years	–	25 458	–	47 108
Later than five years	–	–	–	27 185
	–	55 474	–	107 625
Operating lease expenses	–	31 633	–	30 286

Operating lease payments under IAS 17 are recognised as an expense on a straight-line basis over the lease term.

In the current financial year, the Group adopted IFRS 16 Leases. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Refer to note 24 for right-of-use assets and lease liabilities.

The Group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2019 has not been restated – ie it is presented, as previously reported, under IAS 17 and related interpretations.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

16. BORROWINGS continued

Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow and lend funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate instruments. The Group and company's interest rate profile consists of fixed and floating rate loans and bank balances which expose the Group and company to fair value interest rate risk and cash flow interest rate risk and can be summarised as follows:

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Financial liabilities				
Loans received and bank borrowings linked to LIBOR	1 204 719	945 936	765 439	603 282
Loans received and bank borrowings linked to JIBAR	118 832	393 488	118 832	393 480
Loans received and bank borrowings linked to South African prime rates	40 000	–	–	–
	1 363 551	1 339 424	884 271	996 762
Financial assets				
Loans granted at fixed rates of interest	6 497	7 258	53 593	44 039
Bank balances and loans linked to South African prime rates	185 754	172 537	54 529	45 315
Bank deposits linked to LIBOR	47 597	48 675	44 870	47 325
Bank deposits linked to money market rates	22 572	34 265	20 626	32 562
Bank deposits linked to Kenyan prime rates	1 244	2 630	–	–
Bank deposits linked to other foreign prime rates	9 842	956	–	–
	273 506	266 321	173 618	169 241

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date. The analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel. If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group and company's profit before tax for the year ended 30 June 2020 would decrease/increase by R11.0 million (2019: R10.8 million) and R7.6 million (2019: R8.2 million), respectively.

16. BORROWINGS continued

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

In terms of its borrowing requirements, the Group ensures that adequate funds are available to meet its expected and unexpected financial commitments by maintaining adequate reserves, banking facilities, reserve borrowing facilities and matching the maturity profiles of financial assets and liabilities. Included in this note is a listing of the Group and company's borrowing powers, borrowing capacity and banking facilities.

The following table details the Group and company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities:

	Trade and other payables R000	Borrowings R000	Total R000
GROUP 2020			
Non-interest-bearing	**1 015 259**	**–**	**1 015 259**
Variable interest rate instruments	**1 204 719**	**158 832**	**1 363 551**
	2 219 978	**158 832**	**2 378 810**
GROUP 2019			
Non-interest-bearing	622 237	–	622 237
Variable interest rate instruments	945 936	393 488	1 339 424
	1 568 173	393 488	1 961 661
COMPANY 2020			
Non-interest-bearing	**728 783**	**–**	**728 783**
Variable interest rate instruments	**765 439**	**118 832**	**884 271**
	1 494 222	**118 832**	**1 613 054**
COMPANY 2019			
Non-interest-bearing	435 074	–	435 074
Variable interest rate instruments	603 282	393 480	996 762
	1 038 356	393 480	1 431 836

Borrowing powers, borrowing capacity and banking facilities

In terms of the memorandum of incorporation, the company's borrowing powers are unlimited. The Group has the following banking facilities amounting to R2 611.9 million (2019: R2 307.1 million):

	GROUP	
	2020 R000	2019 R000
General overdraft and similar facilities	**1 997 058**	1 153 081
Letters of credit facilities	**614 872**	1 154 095
Total facilities	**2 611 930**	2 307 176
Utilised facilities	**(1 214 651)**	(1 339 424)
Unutilised facilities	**1 397 279**	967 752

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17. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Letters of credit and trade finance payables	1 204 719	945 936	765 437	603 286
Trade payables	896 854	575 318	697 190	411 958
Other payables	84 619	19 045	7 329	4 375
Accruals	33 786	27 874	24 264	18 741
VAT payable	1 249	8 240	–	–
Short-term borrowings	8 168	7 453	6 759	4 116
Total trade and other payables	2 229 395	1 583 866	1 500 979	1 042 476

The letters of credit supplies a 120-day trade payment term to the Group. The maximum facility available to the Group is R1 395.6 million (2019: R1 154.0 million) and interest is calculated at LIBOR plus 2.0%. These facilities are carried at amortised cost, as the interest rate is market related and fair value therefore approximates amortised cost.

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases stated is 146 days (2019: 112 days).

Trade and other payables are stated at amortised cost, which normally approximates their fair value due to their short-term maturity.

Accruals consist of accruals for leave pay and accruals for bonuses.

Employee entitlements to annual leave are recognised as services are rendered. An accrual, based on total employment cost, is raised for the estimated liabilities as a result of services rendered by employees up to reporting date.

The bonus accrual relates to the annual 13th cheque payable to employees of the Group and the company.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management

The Group's Board of directors provides financial risk management services to the business, co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives and exposure levels is governed by the Group's policies approved by the Board of directors. The Group does not use derivative financial instruments for speculative purposes. The Group enters into financial instruments to manage and reduce the possible adverse impact on earnings of changes in interest rates and foreign currency exchange rates.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

It is the Group's policy to enter into foreign exchange forward contracts and options to buy and sell specified amounts of foreign currencies in the future at a predetermined exchange rate for approximately 50% of the Group's foreign currency commitments. The Group uses contracts with terms of up to 120 days. The contracts are entered into to manage the Group's exposure to fluctuations in foreign currency exchange rates, as a means of economic hedging.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Foreign currency risk management continued

At reporting date, the company and Group had contracted to buy/sell the following amounts under forward exchange contracts:

	Rate		Foreign currency		Contract value		Fair value assets (liabilities)	
	2020 R	2019 R	**2020 000**	2019 000	**2020 R000**	2019 R000	**2020 R000**	2019 R000
GROUP								
BUY:								
US Dollar								
Less than three months	**17.70**	14.44	**48 269**	30 251	**854 395**	436 676	**(15 678)**	(2 804)
Three to six months	**17.91**	14.89	**4 689**	–	**83 960**	–	**(1 619)**	(6 722)
Euro								
Less than three months	**19.26**	–	**5 340**	–	**102 822**	–	**831**	–
							(16 466)	(9 526)
Foreign currency assets							**5 063**	297
Foreign currency liabilities							**(21 529)**	(9 823)
							(16 466)	(9 526)

	Rate		Foreign currency		Contract value		Fair value assets (liabilities)	
	2020 R	2019 R	**2020 000**	2019 000	**2020 R000**	2019 R000	**2020 R000**	2019 R000
COMPANY								
BUY:								
US Dollar								
Less than three months	**17.44**	14.46	**31 786**	22 688	**554 380**	327 989	**(2 900)**	(1 236)
Three to six months	**17.69**	14.89	**2 754**	2 000	**48 713**	29 780	**(159)**	(6 722)
Euro								
Less than three months	**19.26**	–	**5 340**	–	**102 822**	–	**831**	–
							(2 228)	(7 958)
Foreign currency assets							**4 757**	–
Foreign currency liabilities							**(6 985)**	(7 958)
							(2 228)	(7 958)

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18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Foreign currency risk management continued

The following significant exchange rates applied for both the Group and the company during the year:

	Average spot rate		Closing spot rate	
	2020 R	2019 R	2020 R	2019 R
US Dollar	15.66	14.19	17.36	14.14
Euro	17.31	15.34	19.47	16.10

The Group and company have various monetary assets and liabilities in currencies other than their functional currency. The following table represents the net currency exposure (net carrying amount of foreign denominated monetary assets and liabilities) of the Group and company according to the different functional currencies of each entity within the Group.

	2020			2019		
Functional currency (liabilities) assets	United States Dollar R000	Euro R000	Other* R000	United States Dollar R000	Euro R000	Other* R000
GROUP						
South African Rand	(1 259 019)	(132 025)	12 937	(771 426)	(15 144)	10 550
Kenyan Shilling	210	–	1 244	683	–	2 630
	(1 258 809)	(132 025)	14 181	(770 743)	(15 144)	13 180
COMPANY						
South African Rand	(844 703)	(132 027)	–	(518 377)	(15 146)	–
	(844 703)	(132 027)	–	(518 377)	(15 146)	–

* *Other currencies include British Pound, United Arab Emirates Dirham, Namibian Dollar, Lesotho Maluti and Zambian Kwacha.*

Foreign currency sensitivity analysis

The Group is mainly exposed to the United States Dollar and the Euro. The following table details the Group's sensitivity to a 10% increase and decrease in the United States Dollar against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items such as cash balances, trade receivables, trade payables and loans and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number represents a gain while a negative number represents a loss. A 10% decrease in the United States Dollar or Euro against each foreign currency exchange rate would have an equal but opposite effect, on the basis that all other variables remain constant. It ignores the effect of any foreign exchange forward contracts that would have mitigated the risk. There were no changes in the methods and assumptions used in preparing the foreign currency sensitivity analysis.

	2020 R000	2019 R000
GROUP		
Profit before tax – USD analysis	125 881	76 878
Profit before tax – Euro analysis	13 203	1 514
COMPANY		
Profit before tax – USD analysis	84 470	50 323
Profit before tax – Euro analysis	13 203	1 515

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Analysis of fair value measurements of financial assets and liabilities recognised in the statement of financial position

Fair value measurements of financial assets and liabilities are analysed as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Forward exchange contracts are measured at fair value through profit or loss in accordance with IFRS 9.

There were no transfers between levels of financial assets and liabilities during the current or previous financial year.

Level 2 financial assets and liabilities consist of assets and liabilities arising from open forward exchange contracts. The inputs used to measure the fair value of these assets and liabilities are valuations received from the financial institutions with which the contracts are held. These valuations are based on the difference between contract exchange rate and the exchange rate at the end of the reporting period.

Please refer foreign currency risk management for a foreign currency sensitivity analysis, which includes the potential profits or losses on open forward exchange contracts due to movements in exchange rates.

	Level 1 R000	Level 2 R000	Level 3 R000
GROUP			
2020			
Fair value through profit or loss			
Foreign currency assets	–	5 063	–
Foreign currency liabilities	–	(21 529)	–
Total – fair value through profit or loss	–	(16 466)	–

	Level 1 R000	Level 2 R000	Level 3 R000
COMPANY			
2020			
Fair value through profit or loss			
Foreign currency assets	–	4 757	–
Foreign currency liabilities	–	(6 985)	–
Total – fair value through profit or loss	–	(2 228)	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

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18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Analysis of fair value measurements of financial assets and liabilities recognised in the statement of financial position continued

	Level 1 R000	Level 2 R000	Level 3 R000
GROUP			
2019			
Fair value through profit or loss			
Foreign currency assets	–	297	–
Foreign currency liabilities	–	(9 823)	–
Total – fair value through profit or loss	–	(9 526)	–

	Level 1 R000	Level 2 R000	Level 3 R000
COMPANY			
2019			
Fair value through profit or loss			
Foreign currency assets	–	–	–
Foreign currency liabilities	–	(7 958)	–
Total – fair value through profit or loss	–	(7 958)	–

19. STAFF COST AND RETIREMENT BENEFIT PLANS

	GROUP		COMPANY	
	2020 R000	2019 R000	**2020 R000**	2019 R000
Staff costs	**387 252**	346 230	**245 155**	226 369
Pension contributions (defined contribution plan)	**19 411**	12 802	**15 902**	9 560

Refer note 21 for details with regards to directors' emoluments.

Contributions to defined contribution retirement benefit plans are recognised as an expense as they fall due.

The Mustek Group Retirement Fund, a defined contribution fund, was established with effect from 1 January 1998. The fund has been registered by the Registrar of Pension Funds and is governed by the Pension Funds Act, No 24 of 1956, as amended. The majority of the Group's employees belong to this fund.

20. GUARANTEES AND CONTINGENT LIABILITIES

Limited guarantees

- Standby letter of credit for Intel International BV for USD0.5 million.
- R5.768 million guarantee of payment in favour of Department of Customs and Excise, South African Revenue Service
- R30 million guarantee of payment in favour of First National Bank on behalf of Sizwe Africa IT Group Proprietary Limited.

Legal disputes

Insurance settlement

One of Mustek's biggest debtors went into business rescue in the latter part of 2017 and an amount of R20.0 million was outstanding after receiving an insurance settlement from its credit insurer. The R20 million was secured with a guarantee that was disputed by the insurance company that issued the guarantee.

On 29 July 2019, judgement was handed down in the legal dispute with an insurance company that related to the validity and enforceability of a guarantee issued by an insurance company in favour of Mustek and the High Court ruled in favour of the insurance company. The after-tax effect of R12.6 million was fully accounted for in the 30 June 2019 financial statements.

Following the above judgement, Mustek sought advice from new counsel and in January 2020 instituted action afresh (on a different legal basis) against the insurance company, the underwriting company and the individual involved in the transaction. Counsel believes there is good prospects of success in the matter.

20. GUARANTEES AND CONTINGENT LIABILITIES continued

Legal disputes continued

COVID-19 claim

The Group has an assets all risks policy in place, covering the physical assets of the Mustek Group. The policy includes loss of gross profit following business interruption triggered by specified perils. The business interruption section has been extended to include a contagious disease extension limited to R10.0 million for Mustek and R5.0 million for Rectron. The Group's brokers believe that the extension has been triggered and have notified a claim to the underwriters who have acknowledged the claim and appointed a loss adjuster. The general market position to date is that insurers believe that the lockdown and the outbreak of the virus are two separate events. To date the claim has not been repudiated and we believe that insurers are awaiting the outcome of litigation that is presently underway which will provide clarity as to whether the policy will respond to this event. The Group has not accounted for any asset relating to these claims.

Apart from the aforementioned matters, the Group has no significant legal matters pending.

21. RELATED-PARTY TRANSACTIONS

During the 2020 financial year the company had the following related parties:

Subsidiaries

2020 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Brotek Proprietary Limited[1]	Loan	42 728	(70 163)
	Rental	5 850	–
	Intercompany charges	(242)	(51)
Mecer Inter-Ed Proprietary Limited	Loan	(2 596)	5 317
	Sales	1 750	40
	Sundry income	2 210	–
	Purchases	(12 616)	(15)
	Management fees	120	–
Mecer Technology Limited	Management fees	(7 591)	–
	Purchases	(12 578)	–
Mustek East Africa Limited[3]	Sales	609	449
	Loan	(9 582)	52 646
Quickstep 94 Proprietary Limited and Soft 99 Proprietary Limited[2]	Loan	–	21 304
Rectron Holdings Limited[1]	Sales	31 569	4 274
	Purchases	(210 647)	(20 315)
	Consulting fees	(520)	(92)

[1] Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.
[2] R16.8 million of the amount outstanding has been impaired to date.
[3] This loan has been impaired. Refer to note 9 for further details.

Note: Refer to note 9 for a complete list of subsidiaries, their related loans and further details about these entities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

21. RELATED-PARTY TRANSACTIONS continued

Associates

2020 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount receivable (payable) R000
Continuous Power Systems Proprietary Limited[1]	Loan	–	1 300
	Purchases	(12 565)	(3 350)
Sizwe Africa IT Group Proprietary Limited	Sales	33 385	26 891
Khauleza IT Solutions Proprietary Limited	Sales	17 096	1 655
	Purchases	(816)	(160)
	Rent received	150	–
Yangtze Optics Africa Holdings Proprietary Limited	Sales	89	20
	Purchases	(1 816)	(110)
	Rent received	187	–

[1] *Amounts receivable are unsecured and no guarantees have been received. Impairment has been provided on this loan. Refer to note 10 for further information.*

Note: Refer to note 10 for a complete list of associates.

Other related parties

2020 Related party	Nature of relationship	Type of transaction	Amount of transaction (paid) received R000	Amount receivable (payable) R000
Mustek Electronics Properties Proprietary Limited	Common directorship	Lease	(18 297)	–

21. RELATED-PARTY TRANSACTIONS continued

During the 2019 financial year the company had the following related parties:

Subsidiaries

2019 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Brobusmac Investments Proprietary Limited[1]	Loan	–	(7 960)
Brotek Proprietary Limited[1]	Loan	1 020	(27 435)
Mecer Inter-Ed Proprietary Limited	Loan	145	2 721
Mecer Technology Limited	Management fees	(6 218)	–
	Purchases	120	–
Makeshift 1000 Proprietary Limited[4]	Loan	(6 803)	–
Mustek Capital Proprietary Limited[1]	Loan	(148)	–
Mustek East Africa Limited[1]	Sales	–	43 192
	Loan	–	(10 520)
Mustek Lesotho Proprietary Limited[6]	Loan	1 036	1 346
Mustek Limited Company Limited[2]	Loan	(12 081)	43 064
Mustek Middle East FZCO[5]	Loan	–	952
Quickstep 94 Proprietary Limited[3]	Purchases	–	3 511
	Management fees	–	1 118
	Loan	144	21 303
Rectron Holdings Limited[1]	Sales	69 765	7 401
	Purchases	(226 344)	(15 261)
Zatophase Proprietary Limited	Loan	(10 400)	–

[1] Amounts receivable or payable are unsecured and no guarantees have been given or received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.
[2] R3.5 million of the amount outstanding has been impaired to date.
[3] R16.8 million of the amount outstanding has been impaired to date.
[4] R43.2 million of the amount outstanding has been impaired to date.
[5] R1.1 million of the amount outstanding has been impaired to date.
[6] R1.0 million of the amount outstanding has been impaired to date.

Note: Refer to note 9 for a complete list of subsidiaries and further details about these entities.

Associates

2019 Related party	Type of transaction	Amount of transaction (paid) received R000	Amount (payable) receivable R000
Continuous Power Systems Proprietary Limited[1]	Loan	3 941	1 300
Sizwe Africa IT Group Proprietary Limited	Sales	31 118	986
Khauleza IT Solutions Proprietary Limited	Sales	4 567	458
Yangtze Optics Africa Holdings Proprietary Limited	Sales	450	13
	Purchases	(7 222)	(169)
	Rent received	105	–

[1] Amounts receivable are unsecured and no guarantees have been received. No amount has been provided as doubtful and no expense has been recognised in respect of bad or doubtful debts due from the related party.

Note: Refer to note 10 for a complete list of associates.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

21. RELATED-PARTY TRANSACTIONS continued

Other related parties

2019 Related party	Nature of relationship	Type of transaction	Amount of transaction (paid) received R000	Amount receivable (payable) R000
Mustek Electronics Properties Proprietary Limited	Common directorship	Lease	(18 265)	–

Interest of directors in contracts

Mustek Limited has entered into a lease agreement with Mustek Electronics Properties Proprietary Limited, with effect from 1 September 2011 and terminating on 31 August 2016. The lease agreement was renewed during the 2017 financial year, with effect from 1 September 2016 and terminates on 31 August 2021. David Kan, chief executive officer of Mustek Limited, is both a director and the majority shareholder of Mustek Electronics Properties Proprietary Limited. Lease payments to the amount of R18.3 million (2019: R18.3 million) were paid with regards to the lease agreement.

The aforementioned transaction was done at arm's length.

Apart from the aforementioned lease agreement, the directors have certified that they were not materially interested in any transaction of any significance with the company or any of its subsidiaries. Accordingly, a conflict of interest with regards to directors' interest in contracts does not exist.

Key management personnel compensation

The remuneration of directors during the year was as follows:

	GROUP		COMPANY	
	2020 R000	2019 R000	2020 R000	2019 R000
Short-term benefits	16 224	16 127	16 224	14 543
Share-based payments	1 906	10 735	1 906	9 196
Post-employment benefits	457	651	457	651
	18 587	27 513	18 587	24 390

Directors' emoluments, consisting of short-term benefits during the year, were as follows:

	Fees for services R000	Basic salary R000	Expense allowances R000	Pension fund contribution R000	Bonus and performance-related R000	Share appreciation rights exercised R000	Fringe benefit on interest-free loan R000	Total R000
2020								
Executive directors	–	9 439	696	457	1 241	2 877	3 179	17 889
DC Kan	–	3 414	330	183	460	1 128	1 902	7 417
H Engelbrecht	–	3 333	270	186	444	959	1 039	6 231
CJ Coetzee	–	2 692	96	88	337	790	238	4 241
Non-executive directors*	1 669	–	–	–	–	–	–	1 669
VC Mehana	485	–	–	–	–	–	–	485
LL Dhlamini	335	–	–	–	–	–	–	335
ME Gama	447	–	–	–	–	–	–	447
RB Patmore	402	–	–	–	–	–	–	402
	1 669	9 439	696	457	1 241	2 877	3 179	19 558

** Outstanding directors' fees of R717 519 are included in trade and other payables*

21. RELATED-PARTY TRANSACTIONS continued

	Fees for services R000	Basic salary R000	Expense allowances R000	Pension fund contribution R000	Bonus and performance-related R000	Share appreciation rights exercised R000	Fringe benefit on interest-free loan R000	Total R000
2019								
Executive directors	–	8 724	688	651	2 013	6 513	3 118	21 707
DC Kan	–	3 157	322	261	748	1 670	1 860	8 018
H Engelbrecht	–	3 074	270	265	722	3 507	1 020	8 858
CJ Coetzee	–	2 493	96	125	543	1 336	238	4 831
Non-executive directors	1 565	–	–	–	–	–	–	1 565
VC Mehana	457	–	–	–	–	–	–	457
LL Dhlamini	298	–	–	–	–	–	–	298
ME Gama	426	–	–	–	–	–	–	426
RB Patmore	384	–	–	–	–	–	–	384
	1 565	8 724	688	651	2 013	6 513	3 118	23 272

Directors' shareholding

At 30 June 2020, the directors collectively held the following direct and indirect interests in shares in the company, which represents 24.82% (2019: 23.29%) of the issued share capital of the company. No change occurred between 30 June 2020 and 7 September 2020:

	Beneficial			
	Direct		Indirect	
	2020	2019	2020	2019
DC Kan	2 288 046	2 288 046	12 738 047	11 625 412
H Engelbrecht	1 750 000	1 750 000	–	–
CJ Coetzee[1]	600 000	642 923	–	–
	4 638 046	4 680 969	12 738 047	11 625 412

[1] *Includes 207 923 shares held through contracts for difference (2019: 207 923 shares held through contracts for difference).*

These shareholdings exclude phantom share options held. The remainder of the directors do not hold any shares.

Share-based payments

Share appreciation rights scheme

The object and purpose of the scheme is to incentivise certain selected senior employees by granting phantom share options to such employees to enable them to benefit from an improvement in the price of the company's shares as listed on the JSE, in the manner and on the terms and conditions set out in the scheme.

The directors may, on an annual basis or from time to time, grant options to employees selected by the Remuneration and Nominations Committee. The Remuneration and Nominations Committee shall determine the number of share appreciation rights (SARs). The price at which SARs may be granted will be the average market price of the ordinary shares of the company on the JSE, as certified by the company secretary, for the 30 days immediately preceding that on which the employee is granted the phantom share option. All SARs granted will remain in force for a period of six months after the vesting period of three years.

SARs may only be exercised by an employee or retired employee subject to the achievement of certain performance hurdles that may be determined by the directors from time to time.

The price at which SARs may be exercised will be the weighted average market price of the ordinary shares of the company on the JSE, for the 30 days immediately preceding that on which the employee is exercising the phantom share option. Upon the exercising of the SARs, the employee will be paid an amount determined as the difference between the exercise price and the grant price multiplied by the number of SARs, less any tax that may at that time be applicable to such a cash bonus.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

21. RELATED-PARTY TRANSACTIONS continued

Share-based payments continued

Share appreciation rights scheme continued

	Weighted average price Rand		Number of options	
	2020	2019	**2020**	2019
Phantom shares outstanding at the beginning of the year	**5.24**	5.24	**7 449 579**	8 613 068
Phantom shares granted during the year	**8.18**	6.71	**1 889 813**	2 085 598
Phantom shares exercised during the year	**5.38**	4.71	**(2 309 806)**	(1 950 000)
Phantom shares that lapsed during the year	**–**	8.44	**–**	(1 299 087)
Phantom shares outstanding at year-end	**5.98**	5.24	**7 029 586**	7 449 579

A total of 1 889 813 phantom shares were granted to a number of employees during the current financial year. In total, 2 110 000 phantom shares with a grant price of R5.50 and 199 806 phantom shares with a grant price of R4.12 were exercised during the year.

The fair values were calculated using a trinomial tree that adheres to all the binomial option-pricing model principles. All these share options are cash settled. The inputs into the model were as follows:

	30 June 2020	30 June 2019
Share price	**R7.04**	R8.10
Grant price	**R4.12/R6.71/R8.18**	R5.50/R4.12/R6.71
Expected volatility	**65.00%/55.00%/43.00%**	41.09%/38.56%/36.16%
Expected life	**0 years/1 year/2 years**	0 years/1 year/2 years
Risk-free rate	**3.53%/3.80%/4.12%**	6.87%/6.52%/7.81%
Expected dividend yield	**3.50%/3.50%/3.20%**	2.9%/2.9%/2.9%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous four years. The Group and company recognised an expense of R4.1 million and R3.3 million, respectively (2019: R10.7 million and R9.1 million, respectively) related to cash-settled share appreciation rights during the current year.

Outstanding phantom shares are exercisable at the following values and in the following periods ending 30 June:

Option price	2021	2022	Number of undelivered phantom shares	Total Rand value
R4.12	3 054 175	–	3 054 175	12 583 201
R6.71	2 085 598	–	2 085 598	13 994 363
R8.18	–	1 889 813	1 889 813	15 458 670
	5 139 773	1 889 813	7 029 586	42 036 234

21. RELATED-PARTY TRANSACTIONS continued

Share appreciation rights scheme continued

The directors have the following phantom share options outstanding:

Director	Grant price	Grant date	Undelivered phantom shares at 30 June 2020	Undelivered phantom shares at 30 June 2019
DC Kan	R5.50	14 November 2016	–	400 000
H Engelbrecht	R5.50	14 November 2016	–	340 000
CJ Coetzee	R5.50	14 November 2016	–	280 000
DC Kan	R4.12	16 February 2018	570 874	570 874
H Engelbrecht	R4.12	16 February 2018	485 243	485 243
CJ Coetzee	R4.12	16 February 2018	399 612	399 612
DC Kan	R6.71	19 February 2019	350 522	350 522
H Engelbrecht	R6.71	19 February 2019	297 943	297 943
CJ Coetzee	R6.71	19 February 2019	245 365	245 365
DC Kan	R8.18	20 February 2020	304 808	–
H Engelbrecht	R8.18	20 February 2020	259 087	–
CJ Coetzee	R8.18	20 February 2020	213 366	–
			3 126 820	3 369 559

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the current fair value determined at each reporting date.

22. GOING CONCERN

The audited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The COVID-19 pandemic has infected millions of people and brought economic activity to a near-standstill as countries locked down to tame the spread of the virus. While deep economic damage is already evident in South Africa and abroad, Mustek's performance was relatively unscathed. As an IT-focused business, the Mustek Group is ideally placed in an industry likely to benefit highly from the "new normal" reality expected to emerge from the pandemic.

23. CHANGE IN ACCOUNTING ESTIMATE

Mustek Limited and Brotek Proprietary Limited reassessed the useful lives and residual values of certain assets on 1 July 2019. The effect of the change in the accounting estimate has been recognised prospectively by including it in the current year and will be included in future periods affected. The carrying amount of the related assets have been adjusted accordingly.

The effect of the change in accounting estimate on depreciation in the current and future years for the Group respectively is as follows:

	Current year increase (decrease) R000	Future years (decrease) R000
Plant and machinery	(1 051)	1 051
Computer equipment	(3 027)	2 936
Motor vehicles	3 030	(2 951)
	(1 048)	1 036

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2020

24. LEASE LIABILITIES AND RIGHT-OF-USE ASSETS

The Group has initially adopted IFRS 16 from 1 July 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

Previously, the Group classified leases as operating leases under IAS 17.

The duration of the leases varies between one and 10 years. None of these leases have any purchase options, nor are any of these leases subject to any restrictive terms.

	Land and buildings R000	Motor vehicles R000	Equipment R000	Total R000
GROUP – 2020				
Right-of-use assets				
At 1 July 2019	44 857	4 472	313	49 642
Additions	5 849	–	–	5 849
Lease termination	(2 791)	(751)	–	(3 542)
Closing balance	47 915	3 721	313	51 949
Accumulated depreciation on right-of-use assets				
At 1 July 2019	–	–	–	–
Current year depreciation	22 701	953	99	23 753
Lease termination	(1 760)	–	–	(1 760)
Closing balance	20 941	953	99	21 993
Carrying amount at 30 June 2020	26 974	2 768	214	29 956
Lease liabilities				
At 1 July 2019	48 506	4 472	313	53 291
Additions	5 849	–	–	5 849
Lease termination	(949)	–	–	(949)
Interest expense	3 690	274	24	3 988
Lease payments	(26 349)	(1 907)	(114)	(28 370)
Closing balance	30 747	2 839	223	33 809
Analysed as:				
Current	22 712	861	97	23 670
Non-current	8 035	1 978	126	10 139
	30 747	2 839	223	33 809
Maturity analysis:				
Year 1	22 712	861	97	23 670
Year 2	4 755	854	107	5 716
Year 3	1 097	565	19	1 681
Year 4	1 317	470	–	1 787
Year 5	866	89	–	955
Onwards	–	–	–	–
	30 747	2 839	223	33 809

24. LEASE LIABILITIES AND RIGHT-OF-USE ASSETS continued

	Land and buildings R000	Motor vehicles R000	Equipment R000	Total R000
COMPANY – 2020				
Right-of-use assets				
At 1 July 2019	86 576	–	–	86 576
Additions	834	–	–	834
Lease termination	(51)	–	–	(51)
Closing balance	87 359	–	–	87 359
Accumulated depreciation on right-of-use assets				
At 1 July 2019	–	–	–	–
Current year depreciation	25 319	–	–	25 319
Lease termination	(17)	–	–	(17)
Closing balance	25 302	–	–	25 302
Carrying amount at 30 June 2020	62 057	–	–	62 057
Lease liabilities				
At 1 July 2019	91 116	–	–	91 116
Additions	834	–	–	834
Lease termination	(38)	–	–	(38)
Interest expense	7 523	–	–	7 523
Lease payments	(29 754)	–	–	(29 754)
Closing balance	69 681	–	–	69 681
Analysed as:				
Current	24 200	–	–	24 200
Non-current	45 481	–	–	45 481
	69 681	–	–	69 681
Maturity analysis				
Year 1	24 200	–	–	24 200
Year 2	6 703	–	–	6 703
Year 3	3 571	–	–	3 571
Year 4	4 387	–	–	4 387
Year 5	5 312	–	–	5 312
Onwards	25 508	–	–	25 508
	69 681	–	–	69 681

GLOSSARY

Terms and abbreviations

Acquisition	The purchase of one corporation by another, through either the purchase of its shares, or the purchase of its assets.
Android	An open-source operating system used for smartphones and tablet computers.
Apple	An American multinational corporation that designs, develops, and sells consumer electronics, computer software, online services and personal computers.
Assurance	A statement or indication that inspires confidence; a guarantee or pledge.
Business model	A plan for the successful operation of a business, identifying sources of revenue, the intended customer base, products, and details of financing.
Cloud computing	The practice of using a network of remote servers hosted on the internet to store, manage, and process data, rather than a local server or a personal computer.
Compliance	The action or fact of complying with a wish or command.
Component	A part or element of a larger whole, especially a part of a machine.
Computing accessories	A peripheral device that connects to a computer system to add functionality. Examples are a mouse, keyboard, monitor, printer and scanner.
Current ratio	Current assets divided by current liabilities.
Desktop	A computer suitable for use at an ordinary desk.
E-commerce	Commercial transactions conducted electronically on the internet.
Employment equity	A policy or programme designed to reserve jobs for people formerly disadvantaged under apartheid.
End-user	The person who actually uses a particular product.
Fibre (optics)	Thin flexible fibres of glass or other transparent solids that transmit light signals.
Foreign exchange risk	A financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the company.
Gross profit	A company's residual profit after selling a product or service and deducting the cost associated with its production and sale.
Hardware	The machines, wiring and other physical components of a computer or other electronic system.
Headline earnings	A measurement of a company's earnings based solely on operational and capital investment activities.
Hedging policy	A risk management strategy used in limiting or offsetting probability of loss from fluctuations in the prices of commodities, currencies or securities.
Incentive schemes	A programme implemented by an organisation deliberately intended to induce or encourage a specific action by using incentives.
Interest cover	EBITDA divided by net interest paid.
Internet of Things	A proposed development of the internet in which everyday objects have network connectivity, allowing them to send and receive data.
Institutional knowledge	A collective set of facts, concepts, experiences and know-how held by a group of people.
King IV	King Report on Corporate Governance™ for South Africa.
Kyoto gases	The six greenhouse gases covered by the UNFCCC/Kyoto Protocol.
Managed services	The proactive management of an IT asset or object, by a third party on behalf of a customer.
Microsoft	An American multinational corporation that develops, manufactures, licences, supports and sells computer software, consumer electronics and personal computers and services.
Net asset value	Ordinary shareholders' equity – total assets less total liabilities.
Networking	Two or more electronic devices, connected to form a series of communication paths.
Notebook	A laptop computer, especially a small, slim one.
Obsolescence	The condition of no longer being used or useful.
Operating margin	A measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc.

Performance indicators	A set of quantifiable measures that a company uses to gauge or compare performance in terms of meeting strategic and operational goals.
Peripherals	Any auxiliary device, such as a computer mouse or keyboard, that connects to and works with the computer.
Private sector	The economy that is not state controlled and is run by individuals and companies for profit.
Product specifications	Written statement of an item's required characteristics documented in a manner that facilitate its procurement or production and acceptance.
Public sector	The part of the economy concerned with providing various government services.
Remunerations	The money paid for work or a service.
Renewable energy	Energy from a source that is not depleted when used, such as wind or solar power.
Reseller	A company or individual (merchant) that purchases goods or services with the intention of reselling them rather than consuming or using them.
Return on equity	The amount of net income returned as a percentage of shareholders' equity.
Revolving credit	Credit that is automatically renewed as debts are paid off.
Scope 3 emissions	Indirect GHG emissions from sources not owned or directly controlled by the entity but related to the entity's activities.
Shareholder	An owner of shares in a company.
Smartphone	A mobile phone that can perform many of the functions of a computer, typically having a relatively large screen and an operating system.
Software	The programmes and other operating information used by a computer.
Solutions	A combination of products and services, delivered with the express purpose of causing system capable of running general-purpose applications a positive business outcome in accordance with a predetermined goal.
Stakeholder	A person with an interest or concern in something, especially a business.
Statutory	Required, permitted, or enacted by statute.
Stock turnaround	The number of times the inventory must be replaced during a given period of time, typically a year.
Subsidiary	A company controlled by a holding company.
Succession planning	A process for identifying and developing internal people with the potential to fill key business leadership positions in the company.
Sustainability	The endurance of systems and processes.
Sustainable energy	Energy obtained from non-exhaustible resources.
Tablet	A small portable computer that accepts input directly on to its screen rather than via a keyboard or mouse.
Transformation	The process of demographically aligned democratisation in South Africa.
Turnaround	The number of times the inventory must be replaced during a given period of time, typically a year.
Turnkey	The provision of a complete product or service that is ready for immediate use.
Upgrade	Raise to a higher standard, in particular improve (equipment or machinery) by adding or replacing components.
Value added	The addition of features to a basic line or model for which the buyer is prepared to pay extra.
Vendor	The party in the supply chain that makes goods and services available to companies or consumers.
Warranties	A written guarantee, issued to the purchaser of an article by its manufacturer, promising to repair or replace it if necessary within a specified period.
White collar crime	Financially motivated non-violent crime committed by business and government professionals.
Volume licensing	A service offered by Microsoft for organisations that require multiple licences, but not the software media, packaging and documentation supplied with the full packaged product.

GLOSSARY continued

Acronyms

B-BBEE	Broad-based black economic empowerment
BEE	Black economic empowerment
BOE	Black-owned entity
CCMA	Commission for Conciliation, Mediation and Arbitration
CCTO	Controlled costs in technology ownership
CCTV	Closed circuit television
CMDB	Configuration management data base
CRM	Customer relationship management
CSI	Corporate social investment
CSP	Cloud service provider
CTC	Cost-to-company
DVR	Digital video recorder
EAP	Economically active population
EBITDA	Earnings before interest, taxation, depreciation and amortisation
EE	Employment equity
EME	Exempted micro-enterprise
EnMS	Energy management system
EnPIS	Energy performance indicators
ERP	Enterprise resource planning
FTTH	Fibre-to-the-home
G4	Current iteration of Global Reporting Initiative Guidelines
GDP	Gross domestic product
GP	Gross profit
GHG	Greenhouse gas
GRI	Global Reporting Initiative
HO	Head office
HR	Human resources
HVAC	Heating, ventilation, air handling and cooling
ICT	Information and communications technology
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IP	Internet protocol
ISO	International Standards Organisation
<IR>	International Integrated Reporting Framework of the IIRC
IoT	Internet of Things

IT	Information technology
JSE	Johannesburg Stock Exchange
KPI	Key performance indicator
LED	Light emitting diode
LTI	Long-term incentive
LTIFR	Lost time injury frequency rate
MICT SETA	Media, Information and Communications Technologies Sector Education and Training Authority
MSP	Managed service provider
MST	Mustek security division
NVR	Network video recorder
OEM	Original equipment manufacturer
OHS	Occupational Health and Safety Act
OS	Operating system
PDMM	Plan, deploy, manage and maintain
PMBok	Project management body of knowledge
POPI	Protection of Personal Information
POS	Point of sale
PSIRA	The Private Security Industry Regulatory Authority
PV	Photovoltaic
QMS	Quality management system
R&D	Research and development
ROE	Return on equity
ROI	Return on investment
SAAS	Software as a service
SED	Socio-economic development
SHEQ	Safety, health, environmental and quality
SMB	Small and medium-sized business
SME	Small medium enterprise
SMME	Small, medium and micro enterprises
SPA	Service provider aggregator (operating model)
STI	Short-term incentive
TRIFR	Total recordable injury frequency rate
UPS	Uninterrupted power supply
USD	United States Dollar
WAN	Wide area network
YOAC	Yangtze Optics Africa Cable
YOFC	Yangtze Optical Fibre and Cable Joint Stock Limited Company
ZAR	South African Rand

COMPANY INFORMATION

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